



**RIGA  
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## Supporting Urban Development in Latvian Large Cities Through Integrated Territorial Investments

### MASTER'S THESIS

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### DECLARATION OF HONOUR:

I declare that this thesis is my own work, and that all references to, or quotations from, the work of others are fully and correctly cited.

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## SUMMARY

Cohesion policy accounts for one third of EU's budget, which is used to support convergence of levels of economic development among its regions and Member States. The EU Structural and Investment Funds (ESI Funds) are the main delivery mechanism of that policy and they represent a complex system of regulatory provisions and procedures for ensuring that European tax payers money is invested in line with EU and national priorities with particular focus on economic, social and territorial cohesion.

The Latvian position in negotiations with European Commission leading up to the agreements for the ESI Funds 2014-2020 programming period was based on the medium-term planning document "National Development Plan Latvia 2020" which reinforced a territorial development model which is based on the development potential in and around the national and regional development centres. The objectives of cohesion policy investments in Latvia are in line with this approach, substantial investments are routed to the development centres. The regulatory framework of ESI Funds has a strong territorial dimension and support to designated territories, particularly municipalities, is common. Provision of support to territories is an issue of common interest and the European Commission addresses it in the ESI Funds programming phase from different aspects one being the use of integrated approaches to tackle territorial challenges at sub-national and sub-regional levels. In the 2014-2020 programming period the territorial dimension has been further strengthened by a conditionality that beneficiary countries have to allocate 5% of their respective European Regional Development Fund (ERDF) envelope to sustainable urban development. This can be facilitated using three options – through a dedicated operational program, through a dedicated priority axis or by making Integrated Territorial Investment (ITI). The latter is a new tool introduced in the Regulation (EU) No 1303/2013<sup>1</sup> (ERDF Regulation) and the Common Strategic Framework<sup>2</sup>, a delivery mechanism which is included in the regulatory acts for ESI Funds. The ITI tool is voluntary and a Member State may opt not to use it giving preference to other forms of fund management.

Latvia made a strong commitment favouring integrated approaches and allocated approximately 10% of ERDF envelope to investments under ITI. Latvia programmed ITI component in seven support measures which represent 4 of the 10 priority axes outlined in the Latvian Operational Program "Investment for Growth and Jobs"<sup>3</sup> (Operational Program or OP). Beneficiaries of ITI are nine largest cities (Riga, Daugavpils, Rezekne, Jekabpils, Valmiera, Jelgava, Liepaja, Ventspils) which together are represented by the Latvian Large Cities Association. All seven support measures with an ITI component are financed from the ERDF and provide support for hard infrastructure investments. The total financial commitment that Latvia has allocated for ITI is EUR 249 million which corresponds to 10,36% of the total ERDF envelope for 2014-2020. In contrast to the expectations progress in absorbing ITI financing by

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<sup>1</sup> Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006. *OJ L* 347, 20.12.2013, p. 289–302.

<sup>2</sup> Common Provisions Regulation or Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006. *OJ L* 347, 20.12.2013, p. 320–469

<sup>3</sup> Operational Program "Investment for Growth and Jobs", Ministry of Finance of the Republic of Latvia, 2014. [http://esfondi.lv/upload/fmdp\\_29082016.pdf](http://esfondi.lv/upload/fmdp_29082016.pdf). Accessed on 20.11.2017.

the 4th quarter of 2017 is limited. A small number of projects of the planned 154 projects have been submitted to the Implementing agency of ESI Funds, and the Large Cities' administrations, the beneficiaries, are consuming a lot of resources coping with administrative burden that is causing delays and the need to revise implementation plans.

There are several aspects from which to look at the ITI process in Latvia. The initial purpose to put ITI into the Operational Program was to fulfil the requirement of ERDF Regulation to provide a certain allocation for sustainable urban development. The expected benefits of the new tool were convincing; at the time there was no previous experience to analyse. In the present stage the administrative setup of the ITI tool has been largely concluded. The integrated strategies - a key feature of the ITI approach – are also in place. There is enough evidence now to analyse and assess the practical ITI process in Latvia in the pre-implementation stage.

The Commission called for greater use of integrated approaches and it resonates with the increasing complexity and multi-dimensionality of urban development challenges. The regulatory framework of the ITI tool allows to plan and use it for complex challenges where funding from several support objectives can be streamlined to provide a cross-territorial solution. The Latvia experience with ITI so far does not illustrate the flexibility associated with ITI and it may be argued that the type of investments Latvia is financing through ITI could have been managed differently with considerable time and resource savings.

Latvian ITI represents a considerable share of financial input under from the ERDF 2014-2020 envelope. From the point of view of national regulatory acts the main feature of ITI is that it ring-fences a certain share of the budget allocated to several ESI Fund support objectives. The ring-fenced amounts are reserved for projects of the special category of beneficiary – nine Large Cities.

Judging by the present state of play the main assumption is that the detailed designations of ITI funding that are included in the Partnership Agreement and the OP are limiting on the key features of ITI – combining funding sources and financing projects on a wider territorial scale. The focus of the Large Cities is overwhelmingly on basic infrastructure which obviously is the highest priority for municipalities, not just the Large Cities. Nevertheless the ITI should be analysed to draw lessons for improving its regulatory framework and application in the future. Another question is how the competence sharing between central government and sub-national bodies in the planning and operation selection process serves the purpose of better investment efficiency and the place-based approach.

ITI is set out in considerable detail in the Partnership Agreement and the Operational Program which makes it difficult to alter or reprogram. There are also no practical options how to redistribute the administrative burden on the Cities' administrations. Any option involving new entities would cause repeated delays since the process of delegating tasks from the Managing Authority is very time consuming as recent experience proves.

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## INTRODUCTION

In the past 10 years the European Union has seen many changes to the way governance functions and powers are executed at the Community and Member State level. The main catalyst for these changes and reforms were the causes and consequences of the global financial and economic crisis of 2007-08. The overwhelming scale of the economic shock called for bold reforms to ensure among others better financial market regulation and surveillance, economic policy coordination, institutional capacity and convergence among an array of very diverse regions across the EU. It should also be noted that monetary policy measures of the European Central bank have been and still are a crucial part of the steps that have been taken to tackle the shocks of the economic crisis. Another element that cannot be left out of a retrospect on EU's response to the economic crisis is the discussion and proceeding actions by Member States to accelerate the integration of the European Monetary Union.

In the context of reforms for a more effective economic governance cohesion policy has an important part of that debate. It accounts for one third of European Community (Community) spending and is by far the greatest example of European solidarity. The Latvian Eurobarometer – a monthly public poll – in its June 2016 study measured the public's opinion about ESI Funds in Latvia. 49% responded that they presume that taking into account provisions from ESI Funds Latvia has net gains from money transfers between the EU. The popularity that ESI Funds enjoy raise expectations for the underlying cohesions policy and both concepts are constantly debated. The questions posed by politicians and experts in this regard relate to the optimum scale of this policy, its contribution to economic convergence, focus on priorities of Community significance and many more.

Cohesion policy underwent significant reforms in many aspects before the start of the current financing period. It was made more results-oriented and focused on particular themes while being more effective and resource efficient; several concepts were introduced or reinforced such as partnership, multi-level governance, smart specialisation and place-based approaches. The latter is of particular importance for the present paper. The definition given in the famous "Barca report" for term place-based policy is:

A long-term strategy aimed at tackling persistent under utilisation of potential and reducing persistent social exclusion in specific areas through external interventions and multilevel governance. It promotes the supply of integrated goods and services tailored to contexts, and it triggers institutional changes<sup>4</sup>.

Almost any government in the world faces the challenge that investments in public fixed assets and new services is limited. In Latvia the contributions of Cohesion policy fill this gap and have make up the largest part of new public investments surpassing the capabilities of the national or municipal budgets for that category of spending. There is an ongoing reform process in many areas governed by Community law and Cohesion policy is not an exception. It cannot be underestimated how important it is for Latvia to be able to use Cohesion policy effectively to support growth, jobs, innovation, social inclusion and education among other areas. As we progress with the present programming period the debate about post 2020 Cohesion policy is already underway. To understand what Latvian interests in the post 2020 Cohesion policy

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<sup>4</sup> Barca F. "Agenda for a Reformed Cohesion policy: A Place-based Approach to Meeting. European Union Challenges and Expectations" (2009), available on:  
[http://www.europarl.europa.eu/meetdocs/2009\\_2014/documents/regi/dv/barca\\_report/\\_barca\\_report\\_en.pdf](http://www.europarl.europa.eu/meetdocs/2009_2014/documents/regi/dv/barca_report/_barca_report_en.pdf)

framework are, a critical analysis of the present operations is necessary. In fact constant monitoring and analysis of ESI Funds is required on part of Latvian authorities under the shared management principle. The main responsibility is with the Ministry of Finance – the Managing Authority. At any given moment the public can have a detailed picture on the progress of adopting governing regulations, calls for project applications, selection and submission, payment flows, attainment of indicators and results.

The ESI Funds 2014-2020 financing period will reach a critical point at the end of 2018. It will mark the end of the period which will be accounted for by the Commission in its review of performance of operational programs in line with the Common Provisions Regulation Article 21. The report will review the progress of all recipient countries, including Latvia, measuring the progress of absorbing funds and achieving various results and indicators that have been agreed upon and are expected to be reached by the end of 2018. The results of this review will be based on data from Member State's annual implementation reports. It will determine the release of the so called performance reserves foreseen in the Common Provisions Regulation Article 22 – approximately 6% of total ESI Funds funding. The reserve and target indicators are part of the so called performance framework which was introduced for the ESI Funds 2014-2020 financing period. It aims to ensure a more balanced absorption of funds when largest spending is pushed to the end of the financing period. This mechanism is rewarding for Member States that perform in line with initial plans. And accordingly insufficient progress is penalized by moving the reserve amount to other priorities. These funds remain in the Member State's envelope.

Monitoring of ESI Funds implementation deals a lot with identifying bottlenecks that hamper implementation and change the planned financial flows. There can be different bottlenecks, for instance, wrong initial assumptions at the strategic planning phase, difficulties in adopting reforms which are a conditionality to access investments or lack of necessary services in the market. Experience shows that initial strategic planning is crucial. Responsible institutions and potential beneficiaries may wish to achieve quick progress at the strategic stage with adopting the key documents and afterwards fine-tuning everything in the following preparatory stages with national regulatory provisions. Well though through strategy can have significant time and human resource savings in the latter programming stages. If there are too many concrete conditions set out in the initial planning documents then it limits the options for the implementing regulations. The topic of this paper deals with how a certain ESI Funds concept, the Integrated Territorial Investment (ITI), works in the Latvian case by looking at the Community legal acts and other provisional documents that together create the legal framework. This instrument was introduced in the ESI Funds 2014-2020 legal framework as one of the tools to support sustainable urban development, but has also a wider application as follows from Common Provision Regulation Article 36(1):

Where an urban development strategy or other territorial strategy, or a territorial pact referred to in Article 12(1) of the ESF Regulation, requires an integrated approach involving investments from the ESF, ERDF or Cohesion Fund under more than one priority axis of one or more operational programmes, actions may be carried out as an integrated territorial investment (an 'ITI').

Programing of ESI Funds is effectively a Member State's act of implementing EU law. The main pieces of EU legislation that are of importance for the current paper are the Common Provisions Regulation and ERDF Regulation. Being by definition directly applicable these regulations foresee that ESI Funds are made available to a Member State after the relevant

strategic programming documents have been elaborated and approved by the Commission. Coordination of this work between the Member State and the Commission services is the responsibility of the Managing Authority (the MA). The MA is also the main contact point for national Responsible Institutions (usually line ministries), NGO counterparts and potential beneficiaries of ESI funds who play a crucial role in facilitating the programming process. It is characterized by a high degree of transparency which is the requirement put forth by the Commission.

The fact that this paper deals with one concept of the whole EU funds subject should not diminish its merit. In the context of cohesion policy budget the portion connected with ITI accounts for 10,36% of the ERDF or otherwise approximately 5,6% from the whole envelope which includes ERDF, Cohesion Fund (CF) and European Social Fund (ESF). But if we narrow the perspective down to the specific category of beneficiary – the Large Cities – then the impact is much more significant and this resource is a considerable portion of support for new development projects over the course of 2014-2020.

On the backdrop of the upcoming EU funds performance evaluation and the debate on future Cohesion policy post 2020 a look at Integrated Territorial Investment is important from several aspects. Since provision of support on territorial basis probably will be used more in the future the effects and experience of different tools should be analysed and conclusions made to ensure better informed strategic decisions in the future. That is intended to be the practical purpose of this paper. The author acknowledges that EU funds and their implementation bear a significant political dimension which gives the beneficiary Member States their say as to where and how investment should be made, but any political decision has to be well grounded in legal provisions as any deviations will trigger illegibility of expenses. This makes the legal dimension of ESI Funds very significant, and raising the level of competence through research in this area, especially focusing around the Latvian stand point and experience, will benefit Latvia's position as a recipient of EU financial assistance.

## **IMPORTANCE OF THE ANALYSIS**

In the ESI Funds 2014-2020 programming period greater emphasis is put on the territorial dimension of investment allocations. This trend in policymaking and law making in the EU is having a growing impact and reflects acknowledgement of issues related to territorial differences. These differences can be of natural, historical, political or another character, and it is always important how they translate into the availability and quality of public services such as social services, education, transport to name a few. There are certainly benefits and challenges from vast territorial differences to the Community as a whole, but it is also in the interests of the Community that people in different regions of the EU should not have to accept a lower standard of living or public services, and common standards have to be pursued.

It has been widely accepted that similar challenges may and in many cases indeed demand approaches that take into account the realities and characteristics of a given region or territory. Cohesion policy instruments provide support to introduce solutions to more and less complex challenges in many areas of public life. Expectations from public interventions using taxpayers' money are constantly rising. In a rapidly changing world the tools that are offered at the Member States disposal have to be constantly adjusted and improved. The ESI Funds 2014-2020 framework and ERDF regulation in particular has to address a relatively new objective of

territorial cohesion introduced in the Treaty of Lisbon<sup>5</sup>, reinforced in the Europe 2020 strategy<sup>6</sup>. This broad concept has several focus points such as capitalising strengths of territories, developing, connecting, improving governance and managing concentration (“As of November 20, 2017, European Commission home page on Territorial Cohesion”). The latter focuses on sustainable urban development since cities have a strong impact and potential to provide growth for itself and via spill-overs to the surrounding areas. The ESI Funds 2014-2020 framework provides several concepts for designing territorial approaches for urban areas (none of these exclusively for urban areas) – ITI, community led local development (CLLD), designing a dedicated operational programme or priority axis.

In the context of implementing territorial strategies a lot of interest is generated by the ITI and CLLD tools. These are new tools introduced in the ESI Funds 2014-2020 framework and are designed to provide more programming options and flexibility in relation to planning, selecting and implementing operations. The practicalities related to applying these instruments in various scenarios and their effectiveness in achieving set objectives will be important for their future role in the post 2020 cohesion policy design. Since ITI has a prominent role in the context of the Latvian OP, our example should be of interest as it may reveal several aspects of ITI design, setup and interpretation of governing provisions.

At present there is very little publicly available analysis about the Latvian ITI scenario. It is relevant to note that Latvia has shown considerable optimism for the ITI tool. Article 7(2) of the ERDF Regulation requires 5% of ERDF envelope allocated for sustainable urban development and gives ITI as an option of approach. This compulsory requirement had to be fulfilled during negotiations with the Commission and reflected in the Partnership Agreement<sup>7</sup>. The Latvian ITI allocation by far exceeds the required minimum EUR 120 million (5% of Latvia’s ERDF envelope) and amounts to more than double reaching EUR 249 million (10,3% of Latvia’s ERDF envelope). In spite of this proportionally large ITI allocation the Latvian scenario has not been analysed thoroughly. The reason could be that in 2014 and 2015 the Latvian ITI framework had reached very little progress and could not offer evidence for research. The Commission and the European Parliament maintain high level of interest in how ITI functions, and this follows from official documents several of which will be referred to in this paper. Looking ahead the author presumes that the Latvian ITI scenario might not receive much attention also in latter stages because it shows little in terms of integrating territories and combining funding – key features and strengths of ITI. It can be expected that the LLCA will conduct own analysis of the strengths and weaknesses that they have identified, and the current experience with ITI will have a very decisive significance in shaping the Latvian position for negotiations on support to regions post 2020. Hence findings and conclusions on ITI are quite important locally, but less at EU-level forums.

The prospects of ITI and other place-based strategy implementation tools are that there will be more of them. There is an acknowledgement of the need for involving entities operating closer to the people, to have local actors shaping strategies and being part of the process of selecting and implementing operations. The EU Parliament recently passed a resolution containing a

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<sup>5</sup> Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, signed at Lisbon. 13 December 2007. *OJ C* 306, 17.12.2007.

<sup>6</sup> Europe 2020. A European strategy for smart, sustainable and inclusive growth. 2010. <http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf>.

<sup>7</sup> Partnership Agreement of the European Union investment funds planning period 2014-2020. Section 3.1.3. [http://esfondi.lv/upload/fmpl\\_31032017.pdf](http://esfondi.lv/upload/fmpl_31032017.pdf). Accessed on November 20, 2017.



recommendation that “CLLD and ITI should play an even more important role in the future of cohesion policy<sup>8</sup>”. The Council of European Municipalities and Regions also gives strong support for integrated instruments:

The relevant rules must be **radically simplified and clarified so that, new, more ambitious integrated territorial development instruments in the future** [emphasis added], allow genuine empowerment of local authorities to decide and develop integrated territorial interventions, without fear related to liability of the regional and/or national administration in case of minor failures<sup>9</sup>.

Given the current state of affairs a closer look to different aspects of the Latvian ITI scenario is necessary, especially focusing on how it resonates with EU law provisions and what legal implications may arise. Because of the way ESI Funds are programmed and negotiated it is ruled out that the conformity of ITI to EU rules could be questioned. As a flexible tool ITI can be work in many situations and there cannot be guidance from the Commission who initiated this tool for all cases. Latvian ITI scenario has been adjusted to correspond to what have been pointed out as our priorities. Still it has to be put into context of Community provisions and several practical implications identified. The author’s view is that this will present a clearer picture of some practicalities of the ITI tool, which might not have been obvious at the time of the strategic decision to pursuit ITI.

The analysis focuses on two aspects of the ITI tool in Latvia. First aspect represents particular elements of the ITI that resonate with the requirements and features attributed to this tool by the Commission that promoted it. Because of the flexibility of the ITI tool it can be applied in many different situations which may bear little resemblance to each other apart from meeting the design requirements for ITI laid down in legal acts – underpinned by integrated strategy, identified in the Partnership Agreement, designation of intermediate body<sup>10</sup>. The second aspect will focus on legal implications that the Latvian ITI model has. This part will include a review of the main building blocks of the ITI scenario.

ESI Funds programming is characterized by very close coordination between the Member State and Commission services. This is to be expected because the programming documents that are elaborated and agreed during this process are a blueprint for the largest transfer from the EU budget to the national budgets and carries immediate financial implications on both sides. Due to close coordination during programming phase it is unlikely to have any conflicts with EU law in the Partnership Agreement or the Operational Program. These two key documents approved by both sides – the donor (EU) and the beneficiary (Member State). The Operational Program in particular is drafted in sufficient detail so that it provides a suitable backing for all other implementation documents to be in line with Community law and policies. For ITI these key programming documents outline the application of the tool, defines the territories which will be targeted, justification for selecting the territories and allocation. Afterwards the Latvian administrative bodies that put ITI in the context of national legal framework elaborate all underlying documents and no further involvement from

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<sup>8</sup> Report on new territorial development tools in cohesion policy 2014-2020: Integrated Territorial Investment (ITI) and Community-Led Local Development (CLLD) (2015/2224(INI)).

<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A8-2016-0032+0+DOC+XML+V0//EN>. Accessed on November 20, 2017.

<sup>9</sup> CEMR, A simplified and integrated territorial approach. CEMR position paper. June 2017.

[http://www.ccre.org/img/uploads/piecesjointe/filename/CEMR\\_position\\_paper\\_future\\_of\\_cohesion\\_policy\\_EN.pdf](http://www.ccre.org/img/uploads/piecesjointe/filename/CEMR_position_paper_future_of_cohesion_policy_EN.pdf).

<sup>10</sup> Common Provisions Regulation. Article 36.

the Commission is foreseen. The next section will follow the ITI concept within the key documents to the local level where the responsibility for ITI is with administrative bodies of the Large Cities.

## THE PATH TO ITI

In 2010 the EU adopted its main high-level strategy Europe 2020 which serves as a reference framework for activities on EU, national and regional level. Europe 2020 builds on the new dimension for cohesion in EU – territorial cohesion – that was introduced in the Treaty of Lisbon also known as Treaty on Functioning of the European Union. The notion of territorial cohesion is important in that it creates the groundwork for a stronger presence of the territorial dimension in EU policies and actions. The Europe 2020 strategy recognizes that:

it is also essential that the benefits of economic growth spread to all parts of the Union, including its outermost regions, thus strengthening territorial cohesion<sup>11</sup>.

This reinforced element for policymaking puts strong emphasis on recognizing the enormous diversity of territories and regions that exists in the EU. In the context of Europe 2020 the differences are to be understood as position in relation to the Strategy's headline targets, for instance on employment, education or poverty reduction. This concept also ensures greater presence of the territorial dimension in planning documents, e.g. territorial strategies. Cohesion policy is the largest EU's investment policy through which the Commission has direct influence on the processes related to coordination and strategic planning at the sub-Community level. Thus, it is the appropriate vehicle for pursuit of territorial cohesion.

Focusing more on territories inevitably leads to the need of greater involvement of sub-national and regional stakeholders, municipalities, local groups, etc. This can be achieved by planning investment based on strategies that are elaborated on the local level– the place-based approach – preferably carried out in an inclusive and transparent procedure. It follows first from the Europe 2020, which uses a broad understanding of stakeholders responsible for achieving set goals – regional and local authorities among others. The Territorial Agenda 2020 which was adopted in 2011 delivers a common view on the place-based approach:

It aims to unleash territorial potential through development strategies **based on local and regional knowledge of needs** [emphasis added], and building on the specific assets and factors which contribute to the competitiveness of places<sup>12</sup>.

Cohesion policy through its regulatory acts such as the Common Provisions Regulation is a significant facilitator of Europe 2020 and it's mission statement is very explicit about territorial cohesion:

The Funds shall contribute to developing and pursuing the actions of the Union leading to strengthening of its economic, social and **territorial cohesion** [emphasis added] in accordance with Article 174 TFEU<sup>13</sup>.

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<sup>11</sup> Europe 2020. A European strategy for smart, sustainable and inclusive growth. 2010. <http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf>. Accessed on 20.11.2017.

<sup>12</sup> Ministerial Meeting of Ministers responsible for Spatial Planning and Territorial Development Territorial Agenda of the European Union 2020. Towards an Inclusive, Smart and Sustainable Europe of Diverse Regions. May 2011, [http://www.nweurope.eu/media/1216/territorial\\_agenda\\_2020.pdf](http://www.nweurope.eu/media/1216/territorial_agenda_2020.pdf).

<sup>13</sup> Common Provisions Regulation. Article 89(1).

The territorial approach is a horizontal concept for EU legal provisions on ESI Funds. As such it is a compulsory element to be included in the Partnership Agreement and the Operational Program. This paradigm shift towards approaches tailored to the local needs has not happened suddenly, but is a gradual development which merely entered a new phase in the 2014-2020 cohesion policy framework. Dedicated urban development programs were financed under the 2007-2014 financial period which provided support to municipalities for public infrastructure projects in the amount EUR 275 million (6,1% of the Latvian ESIF envelope) of which EUR 259 million were allocated to national and regional development centres<sup>14</sup>.

## **BUILDING BLOCKS OF ITI**

Several main features about the concept “integrated territorial investment” or ITI can be understood from the term itself. Even without any background knowledge can be concluded that it refers to financial expenditure which has some kind of integrated character and a territorial designation. The integrated character can be that it combines or integrates sources of funding or integrates targets. In the case of ITI it can be both. This tool acknowledges that territorially Europe is very heterogeneous and the sectorial approach of cohesion programs sometimes cannot be used to address specific challenges of a certain area or territory. The ITI tool offers a solution as long as the problem or issue is within the realm of the Thematic Objectives<sup>15</sup> and areas of intervention that the ES Structural funds and Cohesion Fund support. The key elements of ITI are:

- A designated territory with an integrated (multi-sectoral) territorial development strategy to serve as the basis for the implementation of the ITI; the strategy underpinning an ITI should be a single cohesive strategy(...).
- An arrangement that draws on funds from at least two different priority axes or programmes and ensures that these funds are used in an integrated manner<sup>16</sup>.

The territorial level of the strategy has to be sub-national, and the scale can range from a whole region covering several municipalities to a single neighbourhood which is part of an urban area within a municipality. It has to be an arrangement that pulls resources from more than two channels and those can be a priority axis or an operational program. ITI is a tool that allows to combine ERDF, ESF and Cohesion Fund even with EARFD or EMFF.

It has been stressed in many instances by the Commission that ITI is not a measure in itself, but a delivery mechanism<sup>17</sup>. It is designed to be very flexible – so much that it is not practical to describe in regulatory documents all the ways how ITI can be designed. To improve the application of ITI discussions about best practice and experience take place with Member States discussing different approaches to ITI. When coming to the decision if and how to use ITI

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<sup>14</sup> Operational Program “Infrastructure and Services”, p.137. Ministry of Finance. 2007.

[http://www.esfondi.lv/upload/fmprogr\\_061115\\_3dpp\\_ar-grozijumiem.pdf](http://www.esfondi.lv/upload/fmprogr_061115_3dpp_ar-grozijumiem.pdf). Accessed on 20.11.2017.

<sup>15</sup> Publications Office of the European Union, EUROPEAN STRUCTURAL AND INVESTMENT FUNDS 2014-2020: Official texts and commentaries, p.17. 2015.

<sup>16</sup> European Commission. Draft Guidance Fiche For Desk Officers. Integrated Territorial Investment (ITI). Version 3 – 28/01/2014, p.3.

[http://ec.europa.eu/regional\\_policy/en/information/publications/guidelines/2014/guidance-fiche-integrated-territorial-investment-iti](http://ec.europa.eu/regional_policy/en/information/publications/guidelines/2014/guidance-fiche-integrated-territorial-investment-iti)

<sup>17</sup> *Ibid.*, p.3.

“existing national arrangements, capacity of local stakeholders and available funding are important determining factors<sup>18</sup>”.

The external form of ITI in each case has a different content and cannot be looked at in isolation from those support measures which fully or partly support ITI. The ESI Fund programming framework has two key strategic documents – the Partnership Agreement and the Operational program. The Operational Program adds more details to what is established in the Partnership Agreement and provides the division of investments into priority axes, which in turn consist of support objectives (SO) which in turn **may** consist of two or more support measures (SM). Before starting project selections for a SM or a SO (if does not include SM) the Cabinet of Ministers has to adopt dedicated implementing regulations for each SO and SM which are drafted by the responsible line ministry. Among many other issues these implementing regulations give precise details on financing of the action including the earmarked allocation for ITI – the amounts reserved for project calls of Large Cities. The earmarking in all cases is done by setting out a dedicated tender call in which only the Large Cities or their proxies such as certain municipal enterprises may will be eligible to submit project proposals.

The following section will give an overview of six SOs which have include the dedicated calls of the Large Cities and their supported actions. Since this was detailed already in the Operational Program before any implementing regulations were drafted and details of the support in each SO fully understood, the ITI and its future underlying strategies had been narrowed down to observe support for the actions provided within these concrete SOs – focusing on basic infrastructure in or around the Large Cities.

## **SUPPORT OBJECTIVES FOR ITI STRATEGIES**

The Latvian planning and regulatory documents use designations such as “ITI support objectives” or “support objectives for implementation of ITI”. There should be no confusion that there are no specific support objectives in the Latvian OP that are fully implemented via the ITI tool. There are seven specific support objectives (SO) which have a certain amount of their budget ring-fenced for the ITI strategies, that is for projects of the Large Cities. These ring-fenced amounts shall be released through a separate call for projects where the Large Cities or their proxies only are eligible. All of these seven SOs have calls for other groups of beneficiaries as well such as regional development centres or municipalities that are outside national or regional development centres. Not all nine Large Cities intend to submit projects in all seven SSOs. This is connected with the distribution of the ITI allocations from SOs among the nine cities. Distribution in general could be used as evidence to discuss the integration characteristics of ITI, and to that end the distribution aspect will be looked at in the section on “Integration Characteristics of Latvian ITIs”. Following from Cabinet of Ministers documents<sup>19</sup> each pocket of Large Cities’ money within a SO is regarded as an ITI so there are seven ITIs all together in the Latvian Operational Program. The author would like to make a note on this

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<sup>18</sup> Scenarios for Integrated Territorial Investments, p.13. Directorate-General for Regional and Urban Policy. B-1049 Brussels. 2015. [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/reports/pdf/iti\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/pdf/iti_en.pdf)

<sup>19</sup> Ministru Kabineta 2015.gada 10.novembra rīkojums Nr. 709 Par integrēto teritoriālo investīciju specifisko atbalsta mērķu finansējuma kopējo apjomu katram nacionālas nozīmes attīstības centram un kopējiem rezultativajiem rādītājiem nacionālas nozīmes attīstības centru grupa (Cabinet of Ministers Order No.709 of 10th November 2015 On total amount of financing for integrated territorial investment support objectives for each national development centre and common output indicators for the group of national development centres), *Latvijas Vēstnesis*, 221 (5539), 11.11.2015.

and express the view on what would be the correct number of ITIs in Latvia if it was necessary to give a count. The logic suggests that an integrated territorial investment is underpinned by a single integrated strategy. Each Large City has its own individual strategy which is a development planning document covering all key areas, including of course those that will receive input via the ITI actions. This means that we should be rather looking at an ITI as a compilation of investments for a single Large City – if that were the case then it would make more sense to say that Latvia has nine ITIs – one for each Large City. This also seems to be in line with guidance from the Commission:

(...)Separate development strategies of different municipalities cannot underpin a single ITI, but if they have a joint development strategy a single ITI may be set up)<sup>20</sup>.

The basic information about the relevant SOs which have an ITI component is given further. Each SO and SM has a unique number which informs where in the structure of the Operational Program the objective or measure is located. The first number tells the relevant priority axis.

SO 3.3.1. Public infrastructure for business. To increase private investments in regions, by making investments for entrepreneurship development according to economic specialization of territories stated in development programmes of municipalities and based on needs of local entrepreneurs.

SO 4.2.2. Energy efficiency in municipal buildings. According to the integrated development programme of the municipality, to facilitate the increase of energy efficiency in municipal buildings.

SO 5.6.2. Revitalisation of degraded territories. Revitalisation of territories through regeneration of degraded territories according to municipal integrated development programmes.

SO 5.5.1. Cultural and environmental heritage. To preserve, protect and develop important cultural and natural heritage, as well as to develop related services.

SO 8.1.2. General education infrastructure. To improve study environment of general education institutions.

SO 8.1.3. Vocational education infrastructure. To increase number of fully modernised vocational education institutions.

SO 9.3.1. Infrastructure for services for family like care of children and for integration of persons with disabilities into the community. Developing the infrastructure of services for family like care of children and persons with disability for independent life and integration into the community.

## **LATVIA BACKGROUND INFORMATION**

The ERDF Regulation Article 7(3) states that the planned approach that a Member State will use to fulfil the requirement to grant 5% of ERDF envelope for integrated actions for sustainable urban development (SUD) has to be described in the Partnership Agreement:

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<sup>20</sup> Draft Guidance Fiche For Desk Officers. Integrated Territorial Investment (ITI). Version 3 – 28/01/2014, p.3. [http://ec.europa.eu/regional\\_policy/en/information/publications/guidelines/2014/guidance-fiche-integrated-territorial-investment-iti](http://ec.europa.eu/regional_policy/en/information/publications/guidelines/2014/guidance-fiche-integrated-territorial-investment-iti) Accessed on 20.11.2018.

Taking into account its specific territorial situation, each Member State shall establish in its Partnership Agreement the principles for the selection of urban areas where integrated actions for sustainable urban development are to be implemented and an indicative allocation for those actions at national level<sup>21</sup>.

ERDF Regulation Article 7(2) gives several approaches that the Member State may consider – ITI, a specific operational program, or a specific priority axis. The Member State may choose the most suitable approach based on its specific situation. The leading decision making role of the Member State is highlighted in the provision.

As it has been mentioned before in this text the allocation that Latvia made for SUD under ERDF Regulation article 7(3) was 10,36% of ERDF<sup>22</sup>. From the available options the choice of Latvian authorities was to implement SUD with the ITI tool. These observations would suggest that there was good assurance about the effectiveness and appropriateness of the ITI tool.

The Cabinet of Ministers approved the Partnership Agreement on June 19<sup>th</sup> 2014 including the outline of approach to ensure sustainable urban development. Section 3.1.3. thereto includes the criteria used for selecting the target territories for sustainable urban development actions and the underlying justification. Some of the key points from this text can be briefly presented. It says that urban areas contribute to the development of surrounding (rural) areas, thus implementation of integrated strategies is important. The nine Large Cities are the basis for polycentric development, but there are significant differences in their economic development and the effect on surrounding areas is limited. The bottom-up approach is said to ensure that: 1) support is adjusted to meet specific needs, and 2) higher return on investment. The integrated development programmes will guide infrastructure investment needed to solve problems related to urban economy, environment, education, social matters among others “(..)while taking into consideration necessity to develop functional **links between the urban and rural areas**<sup>23</sup>” [emphasis added]. The investments would cover different thematic objectives, priority axis and support objectives which meets the conditions for integrated urban development. Two important details are mentioned regarding management. **First**, that the Managing Authority will conclude delegation agreements with every Large City. The ERDF regulation Article 7(4) and 7(5) requires that urban authorities responsible for implementing urban strategies “(...)shall be responsible for tasks relating, at least, to the selection of operations(...)”. **Second**, that a Regional Development Coordination Council (the RDCC) will be set up as a consultative body to monitor the implementation of Cities’ development strategies (programs). The role of RDCC will be discussed more in the part on integration characteristics of ITI. Finally it stresses complementarity of ITI investments and other funding sources such as other Structural Funds (EAFRD, EMFF), state budget and other funding. Additional insight in the justification for the ITI design from the Latvian authorities is given in the Operational Program (OP):

(1097) Specific support objectives (SO) (3.3.1., 4.2.2., 5.6.2., 8.1.2., 8.1.3., 9.3.1.) were selected for implementation in the ITI framework based on analysis of the local needs

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<sup>21</sup> Article 7(3) ERDF

<sup>22</sup> The author operates with the sum of EUR 249 980 121 (10.36% of ERDF envelope) which is the sum of allocations for the Large Cities indicated in the Regulations of the Cabinet of Ministers for each of the six ITI support measures. The original amount indicated in the Operational Program was EUR 230 840 000 – an amount which is equal to 9.6% of ERDF envelope or 5.2% of the total ESIF envelope. Due to rearrangements in the ITI structure and allocation of additional funding from Latvian state budget for ITI the present sum differs from the sum in the Operational Program.

<sup>23</sup> Partnership Agreement. p.182

and potential, by evaluating which of the SOs can most effectively be delivered in the ITI framework thus allowing the cities to implement multi-sectoral, specialized and forward-thinking integrated development programs of municipalities(...). From the given SOs the beneficiary shall choose at least two SOs which will facilitate solutions for problems identified in the integrated development programs of the municipality<sup>24</sup>.

This information leads to an assumption that at the stage of drafting the Operational Program and coordinating it with Commission services the focus (perhaps in some cases even at project level) of the ITI support was clear. Identifying six SO through which ITI shall be facilitated aligning the objectives and deliverables of these SO with the objectives of the integrated territorial strategies that the Large Cities were yet to elaborate as pre-condition to get access to the grants. On the one hand this order of things gives some certainty as to what the Large Cities can expect and resort to advanced planning, but on the other hand it limits the flexibility of the planning process and narrows down the use of the ITI tool thus not activating the ITI features that are promoted. To illustrate this with an example one can think of work-based learning which is a well-known concept in vocational education. The challenge here is to activate and raise awareness of employers who are key counterparts for the model alongside vocational training schools and business sector associations. The concept is very important for the future labour market because it dramatically improves employability of students as it provides them with the necessary skills to begin work. To reinforce this training model infrastructure support should be provided for the schools and the employers with complimentary support for “soft” measures like at-work supervisors and partial work pay subsidies. The ITI tool allows to set up project calls and other procedures and to have a municipality in control of this process.

In parallel with drafting of the relevant Cabinet regulations the Ministry of Environment Protection and Regional Development (MoEPRD) which assumes overall coordination for ITI, delivered to the Cabinet of Ministers two information reports on aspects and conditions of implementing ITI. The task to submit these reports stems from the Cabinet of Ministers decision of 4<sup>th</sup> February 2014 on the draft Operational Program - the MoEPRD was required to draft and submit to the Cabinet of Ministers a description of the implementation mechanism of the urban and polycentric development investment principles and mechanisms including:

6.2. Clear mapping of the functional model for national and regional development centres (9+21), which covers the entire territory of Latvia;

6.3. Cooperation mechanisms and principles between national and regional development centres and surrounding municipalities and counties in projects within each specific support measure, to ensure selection of result-oriented effective and sustainable projects disregarding the geographical implementation place.<sup>25</sup>

The above points obviously have a wider context than ITI and point 6.1. addresses the very complex topic of administrative division of the territory of Latvia. Since this Cabinet of Ministers decision was taken in the context of the draft Operational Program, planning the ITI scenario was part of the above tasks. It is important to note that there is emphasis on the territorial cooperation aspect. The notion in 6.2. of “9+21” is very often used to describe the key concept of regional development in Latvia. “9” represents the nine Large Cities also designated as national development centres and “21” represents the twenty one smaller cities

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<sup>24</sup> Operational Program “Growth and Jobs”.

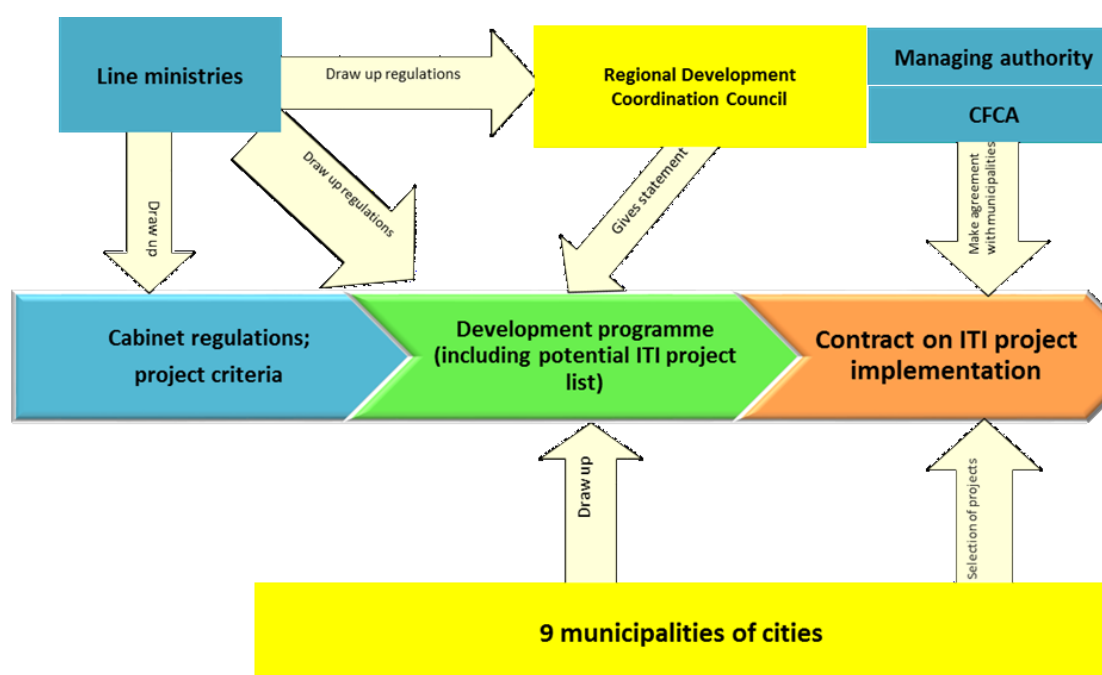
<sup>25</sup> Ministru kabineta 04.02.2014. protokollēmums Nr.7. 48.§. Programmas projekts "Darbības programma "Izaugsme un nodarbinātība" 2014.-2020.gada plānošanas periodam" (Decision of the Cabinet of Ministers No.7 of 04.02.2014. Draft Program “Growth and Jobs” for 2014-2020).  
<http://tap.mk.gov.lv/mk/mksedes/saraksts/protokols/?protokols=2014-02-04>

also known as regional development centres. This concept is established in the Latvia long-term development strategy for 2030:

“(…) by realizing the country’s polycentric development model, the role and potential of national and regional development centres shall be increased. As the urban and rural functional connection grows stronger, a complementarity driven interaction between cities and rural areas will be facilitated.”<sup>26</sup>

In the process of ITI set up we see several references to the regional development model of “Latvia 2030” and mention of urban rural linkages which leads to the assumption that initially the ERDF 2014-2020 support for ITI and urban measures was expected to have a wider regional, perhaps selection criteria or cooperation mechanisms. The benefit for the policy area of the MoEPRD would certainly be a valuable input towards reinforcing the administrative reform (division) issue which in its present state creates many obstacles for the ministry in planning and improving municipal performance and services in the regions. The discussion on detailed principles and mechanisms for accessing ITI grants led to contradictions between the responsible ministry and the beneficiaries of ITI. The results of negotiations and bargaining set the legal context – regulations and criteria – of ITI in Latvia.

In the further programming steps of ITI in Latvia the responsible line ministries started to draw up Cabinet Regulations for Support Objectives. The SOs which are supporting ITI strategies all have ring-fenced amounts of total budget reserved for projects of Large Cities. There is a dedicated Cabinet regulation for each SO drafted by the responsible ministry. In each regulation there is a reference to the ITI and the amount of financing reserved for Large Cities.



Source: *Partnership Agreement (183.p.). ITI pre-implementation stages.*

<sup>26</sup> Saeima of the Republic of Latvia, Latvia Long-term Development Strategy 2030, p.11, 2010.  
[http://www.pkc.gov.lv/sites/default/files/images-legacy/LV2030/Latvija\\_2030.pdf](http://www.pkc.gov.lv/sites/default/files/images-legacy/LV2030/Latvija_2030.pdf)



## INTEGRATION FEATURES OF ITI

Effective cooperation between neighbouring areas and planning of services and resources with regard to the surrounding area is necessary to achieve higher efficiency of public investments. Integrated solutions that address challenges in more than one administrative territory can deliver benefits to larger number of people and if executed in a coordinated manner can less costly for the public budget. The OECD highlights the need for horizontal coordination:

Sub-national horizontal coordination is essential to encourage investment in the presence of positive spillovers, to increase efficiency through economies of scale, and to enhance synergies among policies of neighbouring (or otherwise linked) jurisdictions such as localities, cities, counties and regions<sup>27</sup>.

Information in the Operational Program on the SO 5.6.2 (Revitalisation of Degraded Territories) informs that it is planned to provide support for projects that **observe linkages between municipalities**. The SO 5.6.2. has the largest contribution to ITI and this condition would directly affect the project pipeline of the Large Cities.

There is evidence that initially this was an effort to activate the approach which was defined in the Operational Program, namely that for SO 5.6.2. the beneficiaries will include “national and regional development centres **and municipalities of their functional territories**”<sup>28</sup>. When the MoEPRD made the first draft report “On Implementation of Urban and Polycentric Development Investments in the EU Funds 2014-2020” it proposed the following. The amount reserved for national (call 1, excluding Riga) and regional (call 2) development centres in SO 5.6.2. and SO 3.3.1. (Note by author: these are twin programs sourcing funds from different priority axis – five and three respectively) is divided in two tranches – 60% is foreseen for individual projects and 40% is foreseen for cooperation projects with other municipalities. This approach was intended for national and regional centres since that would theoretically cover the whole territory of Latvia (9+21 with functional areas). For instance, Valka<sup>29</sup> municipality had to get the Vidzeme Planning region to approve their new development program, but it was refused and changes were requested. The revised document was adopted by the Valka city council in March 2014. The decision of 27<sup>th</sup> March 2014 on the revised program notes that according to the draft information report “On Implementation of Urban and Polycentric Development Investments in the EU Funds 2014-2020” the allocations for national and regional development centres will be divided in two parts: 60% for individual project proposals and 40% for cooperation project proposals. **“Valka must include in its Development program Cooperation projects with neighbouring municipalities and these projects will be approved by the Vidzeme planning region”**<sup>30</sup>.

The proposal of the MoEPRD to split the allocations part for individual and part for cooperation projects was actively opposed by the LLCA. They used arguments that such division will diminish the role of the Large Cities’ own strategies and will force them to invent projects that formally comply with these requirements. That would in turn mean investing in projects with less impact on growth and efficiency. At this stage representatives of the LLCA

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<sup>27</sup> OECD, Recommendation of the Council on Effective Public Investment Across Levels of Government, p.15. 2014. <http://www.oecd.org/cfe/regional-policy/recommendation-effective-public-investment-across-levels-of-government.htm>

<sup>28</sup> Operational Program “Growth and Jobs”, p.131.

<sup>29</sup> Valka is one of the 21 regional development centres.

<sup>30</sup> Valka municipal council. Meeting protocol No.4, p.17. 27.03.2017.. [http://www.valka.lv/wp-content/uploads/2011/11/Novada-l%C4%93mumi-public%C4%93%C5%A1anai\\_27.03.2014.pdf](http://www.valka.lv/wp-content/uploads/2011/11/Novada-l%C4%93mumi-public%C4%93%C5%A1anai_27.03.2014.pdf)

also raised the question of quotas. Experience from the 2007-2013 planning period suggested that it was a welcome method for allocating funds to municipalities. In September 2014 the final version of the report “On Implementation of Urban and Polycentric Development Investments in the EU Funds 2014-2020” was adopted at the Cabinet of Ministers. In this report the MoEPRD did not mention the idea of splitting funding for individual and cooperation projects.

Further the MoEPRD drafted order of the Cabinet of Ministers which set quotas of financing for ITI for each Large City. To ensure some degree of elasticity for internal coordination of projects among the Large City they are attributed the total sum of all ITI interventions together. This is needed because it would be impractical to set the quota for each Large City in implementation regulations. Since the Large Cities requested quotas a separate document setting out each City’s total share of ITI was adopted. The order provides the following:

4. Municipalities of national development centres observe during project selection the financial distribution and corresponding achievable results set by the Regional development coordination council for each specific support objective under which investment plans of municipality’s development programs are implemented<sup>31</sup>.

The ITI quotas for each city are set by an internal decision of the members of the LLCA and then the distribution which they have agreed is transferred to the Order of the Cabinet of Ministers. It is not known what are the criteria for the internal division. The fact that there is no transparency and methodology that supports the division is a deviation from ESI Fund principles and creates a legal issue. The Order 709 establishes quotas as shown bellow, but does not give any guidance as to how this distribution was made.

	<b>3.3.1.</b>	<b>4.2.2.</b>	<b>5.6.2.<sup>32</sup></b>	<b>8.1.2.</b>	<b>8.1.3.</b>	<b>9.3.1.</b>	<b>Total</b>
Daugavpils	1 730 000	12 133 016	12 927 537	4 525 000	2 122 726	893 350	34 331 629
Jelgava	1 257 020	1 808 275	13 317 017	6 696 748	3 110 951	1 762 560	33 248 756
Jēkabpils	500 000	1 419 136	12 271 654	6 000 000	0	952 168	25 424 567
Jūrmala	2 000 000	2 752 211	13 000 000	6 471 654	0	1 200 702	27 952 571
Liepāja	3 829 250	2 556 800	16 305 323	8 857 383	0	1 700 000	25 424 567
Rēzekne	3 074 913	3 320 041	11 910 759	5 527 654	0	1 591 200	25 424 567

<sup>31</sup> Ministru Kabineta 2015.gada 10.novembra rīkojums Nr. 709 Par integrēto teritoriālo investīciju specifisko atbalsta mērķu finansējuma kopējo apjomu katram nacionālas nozīmes attīstības centram un kopējiem rezultatīvajiem rādītājiem nacionālas nozīmes attīstības centru grupa (Cabinet of Ministers Order No.709 of 10th November 2015 On total amount of financing for integrated territorial investment support objectives for each national development centre and common output indicators for the group of national development centres), *Latvijas Vēstnesis*, 221 (5539), 11.11.2015.

<sup>32</sup> Part of the ITI allocation in SO 5.6.2. has been transferred to SO 5.5.1. (Cultural and natural heritage) for a call of projects for Large Cities. The recalculated distribution between Large Cities is not publicly available at this time, but it should be borne in mind that the total allocation for each City does not change.

Rīga	0	6 000 000	10 351 949	15 095 322	0	3 500 000	21 142 958
Valmiera	3 723 000	1 310 086	9 379 199	4 953 173*	477 500	1 300 000	21 142 958
Ventspils	0	0	20 774 515	4 100 000	0	550 052	34 947 271

Source: Report of the MoEPRD. EU Structural and Cohesion Fund Monitoring Committee. 24.11.2016.

A potential legal issues which arises from the way support for SUD has been programmed relates to the performance reserve. The performance reserve is an amount of the allocation for a priority axis which is not available for the Managing Authorities before the performance review is conducted. Introduction of a performance framework was one of the changes brought to cohesion policy for the period of 2014-2020. The idea of a performance framework is to have a system for monitoring progress of programs through benchmarks of targets and results that have to be achieved by the end of 2018. Given that payments continue until two years after the end of the seven year programming period, i.e. until 2022, the end of 2018 marks approximately the midway of the disbursement period for 2014-2020 ESI Funds.

The Commission monitors the performance framework at the level of Operational Programs and priorities. In the Latvian case a performance framework is set out in the OP for each priority axis with some common indicators (e.g. financial) and some individual indicators related only to one or some SOs within that priority axis. For example the performance framework for the fourth priority axis is the following:

ID of indicator	Unit of measure	Fund	2018 target	Total target
Financial indicator	EUR	Cohesion Fund	31 678 051	228 548 580
Financial indicator	EUR	ERDF	83 872 951	336 875 566
Households with improved energy efficiency	No of households	ERDF	0	14 286
Energy efficiency works contracts concluded with beneficiaries	No of contracts	ERDF	70	
Total length of newly built tram or metro lines (SO 4.5.1.)	Km	Cohesion Fund	0	8
Contracts concluded with beneficiaries (SO 4.5.1.)	No of contracts	Cohesion Fund	2	

Source: Operational Program "Growth and Jobs", p.103.

The performance reserve is set for each category of Fund and each category of region (Latvia has only one category of region). Not all SOs which are in the priority axis are represented in the performance framework by an individual indicator (all SOs contribute to the financial indicator). For instance the SO 4.4.1. Development of Charging Points for Electric

Vehicles does not have a 2018 target output, but the total output is 235 charging points built. Since it is a support measure financed by ERDF any payments will be accounted for in the financial indicator which has a 2018 benchmark target. Having an indicator in the performance framework which specifically relates to a particular support objectives indicates that the Commission is expecting progress in that area by the end of 2018. The charging points for instance are of no such concern for the Commission and there is only the total expected output set out in the OP by the end of 2022. A different example is priority axis eight “Education, skills and life-long learning” which has several support objectives funded from the ESF. There are eleven indicators related to ESF including the financial indicator. This demands a timely activation of all ESF support objectives in priority axis eight. In all cases there is more than just a single financial indicator present in the performance framework. The method how the Commission monitors and evaluates these is the following:

A priority will be deemed to have achieved its milestone in the following cases (Article 6(2) of the Commission Implementing Regulation):

- if there are no more than two indicators in the performance framework related to a priority, all indicators have achieved at least 85% of their milestone value by the end of 2018

or

- if there are three or more indicators in the performance framework related to a priority, all indicators except for one have achieved at least 85% of their milestone value by the end of 2018 and the one indicator which has not achieved 85% of its milestone value has achieved at least 75% of its milestone value<sup>33</sup>.

This clearly indicates that all indicators are taken into account and failure to achieve just one indicator causes losing the performance reserve with all the related consequences given that: “(...) the total amount of the performance reserve allocated by ESI Fund and category of region shall be 6%<sup>34</sup>”.

The reserve is not available for contracting until the performance review by the Commission in 2019 (under Article 21 of Common Provisions Regulation). The purpose of the Commission by conducting the performance review is to establish which measures are achieving at least 85% of their milestones and only those programs and priorities which do, will be allocated the performance reserve. In other words there is 94% of total allocations within a priority axis available for contracting before the performance review. How a Managing Authority coordinates the performance framework within a priority axis, is up to the Member State. In Latvia the financial indicator milestone is distributed among SOs within a priority axis. The amounts assigned to each SO is based on expectations and forecasts by responsible line ministries. An indicator which is a specific output of a certain SO obviously cannot be attributed to other SOs. For example in priority axis 4 only one SO can be expected to deliver output result of new tram lines built.

The municipalities are reluctant to accept the performance reserve mechanism mainly for planning reasons in those cases when the whole budget of a SO has been allocated to beneficiaries via quotas. Each beneficiary must observe that 6% of the quota will be available only in 2019 and that way the reserve is passed down to the municipalities. When planning

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<sup>33</sup> European Commission. Guidance Fiche. Performance Framework Review and Reserve in 2014-2020, p.15. Final version. May 2014. [https://ec.europa.eu/fisheries/sites/fisheries/files/docs/body/09-performance-framework\\_en.pdf](https://ec.europa.eu/fisheries/sites/fisheries/files/docs/body/09-performance-framework_en.pdf).

<sup>34</sup> Common Provisions Regulation. Article 22(1).

investments municipalities are focused on the whole quota amount and regard find it counter efficient to have 6% share left out, since it is too small to consider for a separate project in the future. The Latvian Managing Authority was asked to address this issue and it allowed for beneficiaries, local municipalities in most cases, to finance the 6% from own resources. That meant covering the share of the reserve from own resources by increasing own co-financing share. For example a municipality has a quota for projects in a support objective in the amount of EUR 2 million. It wants to use the quota for a single project. The implementing agency has two options: 1) if the project implementation will continue at the time of Commission's performance review, the contract is made for EUR 880 000 (EUR 2 million less 6%), the municipality increases co-financing and a separate clause stipulates that 6% is granted after the performance review, or 2) if the project implementation will be finalized at the time of Commission performance review the contract is made in the amount of EUR 880 000 and the project applicant is asked to correct the project budget because for a finalized project no more changes are possible in the financing structure. The second option means that either the project is scaled down or the project applicant increases co-financing. If in the case of the first option the reserve is lost after all no changes to the co-financing share are carried out:

If the Commission makes a negative decision on the performance framework no changes to the project contract are initiated and the contracting institution does not make amendments to the contract. Project implementation is carried with the proportion of financing (including pre-financing) which were originally approved<sup>35</sup>.

Loosing of the performance reserve will be particularly painful for those municipalities that are financing it from own resources with the expectation that their project budgets will be revised at the end of 2019 and their excess co-financing portion will be compensated via the performance reserve.

The implementing Cabinet Regulations provide a division of the support objective's allocation among the beneficiary categories. Due to the nature and requirements of ITI tool, the allocations that support ITI actions are set out in provisions of several other documents most notably the Operational Program and the Partnership Agreement. The implementing Cabinet Regulations do not provide any method for distributing indicator values of the performance framework among the different categories of beneficiaries and it is not clear how in the situation of loss of the reserve the decrease of SO's budget would be distributed among the beneficiaries.

The implementing regulations set out the expected financial indicator - the performance framework value - in a single number without distribution among categories of beneficiaries. There is no formal method that can be counted on if the quotas are to be revised. For instance the 2018 value of the financial indicator of the fifth priority axis is EUR 109 957 466. There are three categories of beneficiaries (national development centres, regional development centres, municipalities of Latgale region). The whole budget of the SO 5.6.2. has been quoted to municipalities. In a hypothetical case if the reserve to fifth priority axis is not lost the issue will be how to manage the fact that the budget of the program has decreased by 6% or approximately EUR 14,38 million. Since no guidance on this is found then the simplest approach would be to distribute the losses proportionally to the separate budgets allocated to the three beneficiary categories. This may be hard to carry through since the ITI portion is "protected" within the total budget of the SO and would affect Latvia's commitment in

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<sup>35</sup> Guidelines of the Managing Authority on Application of the Performance Reserve in the 2014-2020 EU funds planning period. Ministry of Finance. June 2016. <http://www.esfondi.lv/vadlinijas--skaidrojumi>

financing sustainable urban development. Although Latvia initially gave double the required amount for this priority it is very unlikely that in this hypothetical case of cutting quotas there would be strong solidarity to resolve the situation. Two other outcomes are more likely: 1) that the central government increases the amount of national co-financing for one or more specific objectives in the priority axis and takes up the lost 6% reserve, or 2) the budget cut is taken by the non ITI part of the priority budget which would hurt most the municipalities outside national development centres.

Another potential issue with SO 5.6.2. is that in the Operational Program Latvia commits to finance cooperation projects, but effectively it will not happen. It is not foreseen in the implementing regulation<sup>36</sup>; there is no connection between project evaluation criteria and cooperation projects either. Point 8 of SO 5.6.2. Regulation mentions “functional territories” as a target group of the support objective. This merely means that functional territories (surrounding municipalities) are accounted for output indicators. For instance jobs that have been created in the reference period in the functional territories of Large Cities are accounted for in the relevant program output indicator. The text of the OP seems to be contradicting to the SO 5.6.2. Regulation since the approach that is still present in the OP was rejected when ITI was set up. The information that “specified amount of financing will be designated exclusively to cooperation projects of development centres and their functional territories<sup>37</sup>” should be deleted from the OP.

## COORDINATION OF OUTPUT INDICATORS

When the Cabinet of Ministers adopted the report On Implementation of Urban and Polycentric Development Investments in the EU Funds 2014-2020 the MoEPRD received a task to present by the end of 2014:

Proposals to ensure monitoring and coordination of the territorial impact of public investment covering also implementation of all support objectives in municipalities in accordance with the conducted needs analysis and mapping of investments of all relevant support objectives<sup>38</sup>.

Supplementing the above it was asked to ensure balanced regional development and investment coherence to territorial needs had to be ensured. On 27th October 2015 the Cabinet of Ministers adopted regulations on Realization, evaluation and financing of regional development measures<sup>39</sup>. This Regulation No.614 laid down the creation of the Regional

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<sup>36</sup> LR Ministru kabineta 2015.gada 10.novembra noteikumi Nr.645. Darbības programmas "Izaugsme un nodarbinātība" 5.6.2. specifiskā atbalsta mērķa "Teritoriju revitalizācija, reģenerējot degradētās teritorijas atbilstoši pašvaldību integrētajām attīstības programmām" īstenošanas noteikumi (Regulation No.645 of the Cabinet of Ministers of November 10th 2015 Implementation regulations of Operational Programme "Growth and Jobs" support objective 5.6.2. "Revitalization of territories by regenerating degraded territories in accordance with integrated development programmes of municipalities"). *Latvijas Vēstnesis*, 238 (5556), 04.12.2015.

<sup>37</sup> Operational Program "Growth and Jobs", p.131.

<sup>38</sup> LR Ministru kabineta sēdes protokols Nr.50 2014.gada 23.septembrī. Informatīvais ziņojums "Par pilsētvides un policentriskās attīstības investīciju ieviešanas principiem Eiropas Savienības fondos 2014.-2020.gadam"(Decision No.50 of the Cabinet of Ministers of 23rd September 2014 Information report "On urban and polycentric development investment principles for European Union funds 2014-2020") . <http://tap.mk.gov.lv/mk/mksedes/saraksts/protokols/?protokols=2014-09-23>.

<sup>39</sup> LR Ministru kabineta 2015.gada 27.oktobra noteikumi Nr. 614 (prot. Nr. 56 37. §). Reģionālās attīstības atbalsta pasākumu īstenošanas, novērtēšanas un finansēšanas kārtība. *Latvijas Vēstnesis*, 2015, 1.decembris, nr.235 (5553).

Development Coordination Council (Coordination council) under the supervision of the minister of environmental protection and regional development. The Coordination council has voting members from several state institutions, municipal organizations and employers' and business NGOs. The Coordination council: 1) reviews and approves investment plans of national and regional development centres, 2) evaluates their compliance with development programs and principles of integrated approach, 3) reviews project proposals (ideas) of municipalities ensuring their conformity with EU Funds legal acts and municipal development strategies, 4) reviews planned and finished investments in territories ensuring coordination of significant projects important for the development of all municipalities and balanced development of territories<sup>40</sup>. To fulfil these functions the Coordination council considers the opinion of the Planning region in which the municipality is situated and the opinions of the MoEPRD and other responsible ministries to assert that the investment plan is in line with planning documents and implementing regulations.

The Coordination council is particularly important in the context of ITI because the Order 709 provides total ITI allocations for each City in a single amount – the sum of all ITI allocations for the given City. Also the total output indicator that the Cities combined have to deliver for each SO. Such a structure allows the Cities to exercise their internal bargaining and planning. For instance SO 4.2.2. requires that 1450 tonnes of CO2 equivalent are saved annually as a result of that program. If a project of one City can ensure more energy saving then the excess savings can be transferred to another project which yields less energy savings in a different City. It is crucial that the total output indicator is achieved. To ensure accumulating data on outputs and coordinate the amounts between national development centres the Coordination council passes the following decisions:

On the project ideas included in the investment plans of the national development centres produced in connection with the support objectives which include integrated territorial investments (...) and the respective amount of ERDF funding and expected output for each project applicant (within each support objective which includes integrated territorial investment), also evaluating the conformity of the project idea to the objectives of the support objective, its supported measures, admissible costs and expected results.

The budget of each of the seven SOs which have an ITI component is divided at least into three parts (except SO 8.1.3. which has two) and will have a different category of beneficiary for each of those parts – Large cities, regional development centres, municipalities which are not in the first two groups, Latgale region municipalities and others. The OP and the implementing regulations establish the expected outputs for the whole SO. So we see that in all of these programs there are more than one category of beneficiary with an indicative funding, but the output values are given for the whole SO. To make sure that the portfolio of projects that all categories of beneficiaries intend to implement will deliver the necessary values of output indicators, the Coordination council was set up. To illustrate why there is a reasonable justification and need for the functions of the Coordination council we will look at some examples.

The SO 5.6.2. has an output indicator of revitalized area of degraded land – 563 ha. By Order 709 the ITI actions should ensure at least 224 ha (first call). By Order 310<sup>41</sup> the regional

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<sup>40</sup> *Ibid.* Article 5.

<sup>41</sup> 13) Ministru kabineta 2016.gada 1.jūnija rīkojums Nr. 310 Par 3.3.1. specifiskā atbalsta mērķa "Palielināt privāto investīciju apjomu reģionos, veicot ieguldījumus uzņēmējdarbības attīstībai atbilstoši pašvaldību

development centres should ensure at least 298 ha (second call). The remaining 41 ha should be ensured in projects of the Latgale region support program – the third call in SO 5.6.2. with beneficiary municipalities from Latgale region. Lets look at two municipalities in the second call – Cesis with a quota of EUR 3,64 million and Aluksne with a quota of EUR 4,37 million. As per Order 310 Cesis will contribute 70,35 ha for the revitalized land indicator, while Aluksne will contribute 0,84 ha. The difference is very big and is determined by the contents of the project(s). Another indicator that is closely monitored is jobs. The output of SO 3.3.1. is expected of 1053 new jobs. Any project may not plan on average more than EUR 41 000 as input for creating one new job. The approach with jobs output is different than with revitalized land output since there is no benchmark for how investment should correlate with ha of land. The jobs output requires a new job for every EUR 41 000 spent. For a project of EUR 410 000 proof of ten new jobs will be expected. To keep track of these indicator values within hundreds of municipal projects the Coordination council reviews strategies and every single project idea and its expected outputs are reviewed. Only approved projects can expect to conclude a contract with the Implementing agency at the end of a successful selection process.

The legal issue that comes up when we look at the interaction of the municipalities and the Coordination council. The question is whether by following through the procedures at the Coordination council the approval for Large Cities' strategies and project lists can be interpreted as their involvement in selecting the operations. Article 7(4) of ERDF regulation foresees that "(...)sub-regional or local bodies responsible for implementing sustainable urban strategies ("urban authorities") shall be responsible for tasks relating, at least, to the selection of operations(...)". The minimum required involvement of municipalities in this case might be within the Coordination council. If that was the case, Large Cities could be relieved of the administrative burden of managing project calls for their own projects. In the ITI framework the task of producing the strategy and the associated project list is attributed to the Large Cities. But the strategy and projects are put in line with conditions for receiving ITI financing through the process of review of those documents and by hearing the municipalities' position at the Coordination council.

The legal regulation on planning and presenting development programs and investment plans has no practical difference between the position of the Large Cities and other categories of beneficiaries in SO 3.3.1. and SO 5.6.2. The benefiting municipalities have a quota set by Orders of the Cabinet of Ministers – for regional centres in both SOs, but for municipalities outside centres for SO 3.3.1. only since there is not a call for this category under SO 5.6.2. The Coordination council does not have any authority over project selection. The investment plan is presented by the relevant municipality and it is checked against correspondence to ESI Funds rules, but it does not generate project ideas. Its main tasks remains to check that output indicators will be achieved.

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attīstības programmās noteiktajai teritoriju ekonomiskajai specializācijai un balstoties uz vietējo uzņēmēju vajadzībām" un 5.6.2. specifiskā atbalsta mērķa "Teritoriju revitalizācija, reģenerējot degradētās teritorijas atbilstoši pašvaldību integrētajām attīstības programmām" plānoto finansējuma apmēru un iznākuma rādītājiem otrajai projektu iesniegumu atlases kārtai (Cabinet of Ministers Order No.310 of 1st June 2016 On the planned financing and output indicator amounts for the second call of support objective 3.3.1. Increase planned investments in regions by investing for the benefit of business development according to the territorial specialization indicated in the municipal development programs and support objective 5.6.2. Territorial revitalization, regeneration of degraded territories in accordance with integrated development programs of municipalities" Latvijas Vestnesis, 2016, 3.jūnijs, Nr. 107 (5679)



## Governance of ITI

The previous section looked at the role of the Coordination council and its role in facilitating ITIs. It is an important phase and if it had not been created the functions it fulfils regarding coordinating the expected project outputs would have to be performed by another institution at either the central government level or the sub-national level.

There is a widespread concern at all levels (Commission, national authorities, municipalities, NGOs) about administrative burden that implementing ITI creates. This includes concerns relating explicitly to ITI and concerns about complexity of ESIF regulation in general. The current financing period is well under way and evidence-based observations can be made regarding the present framework of cohesion policy. In May 2017 the European Parliament heard a report by the Committee on Regional Development which mentions the following regarding post 2020 cohesion policy:

(...) it is essential to reduce the administrative burden for its beneficiaries and management authorities, to find the right balance between the result orientation of the policy and the level of checks and controls to increase proportionality, to introduce differentiation into the implementation of programmes, and to simplify the rules and procedures, **as it is currently often perceived as too complex**<sup>42</sup>[emphasis added].

A document from 2016, a research for the Committee on Regional Development, acknowledges that although the regulatory framework had been improved with the:

(...) new expanded “umbrella regulation”, the CPR, the Fund-specific regulations, delegated and implementing acts and numerous guidance papers create a complexity that seems difficult to handle by Member State authorities, undermining legal certainty<sup>43</sup>.

Governance challenges are mirrored in slower than expected implementation progress and absorption results. The Latvian ITI package is a clear example of this correlation. The Latvian EU Structural Funds and Cohesion Fund Monitoring Committee in its meeting of 24<sup>th</sup> November 2016 reviewed information from the MoEPRD and the LLCA on urban development, implementation of ITI and the role of local strategies. The minutes of this meeting show a discussion between representative of the Commission, the Managing Authority and the director of the LLCA. This short discussion as it is recorded in the minutes is given for the purpose of evidence that governance is an issue in the Latvian case with ITI:

Commission: indicates that there is progress with implementing ITI, but it is insufficient, and it is necessary to review the causes for delays and remove them (...)

Managing Authority: explains that one of the reasons there are delays with ITI is imprudent regulation for urban development measures for the 2014-2020 period, which has hampered making several important decisions. Another novelty of the 2014-2020 period that caused delays with ITI is the transfer of the decision making function to the municipalities which required time for evaluation and execution.

LLCA: adds that deficiencies in the current urban development approach have already been identified and that LLCA is willing to introduce appropriate changes already in the present financing period to ensure better results.

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<sup>42</sup> Committee on Regional Development: Report On building blocks for a post-2020 EU cohesion policy, G, European Parliament, May 24, 2017. <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A8-2017-0202+0+DOC+XML+V0//EN>

<sup>43</sup> Research for REGI Committee - Mid-Term Review of the MFF and Cohesion Policy, p.3, 2016, April 15. [http://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL\\_BRI\(2016\)573430](http://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL_BRI(2016)573430).

Although there is not much detail in these comments we can make an assumption that Latvian authorities are indicating that there has not been sufficient guidance on how to set up SUD measures and that delegation of tasks to the sub-national level is an issue. The author agrees that aligning projects with result values of the OP and with the ring-fenced financing of ITI was a difficult task for the Large Cities and the responsible ministries, but given the structure that was used that part was unavoidable. There was also no previous experience for delegation of tasks, especially tendering and evaluation functions. This issue will be look at in more detailed in a dedicated section.

The European Policies Research Centre conducted a research on integrated territorial approaches in cohesion policy. This research gives detailed analysis of the ITI tool while it was still in its inception phase and provides examples of how different Member States planned to use it. Unfortunately, the research focused only on countries represented by IQ-Net members and that does not include any of the Baltic States. The research gave some insight as to why some Member States decided to implement SUD through a dedicated priority axis instead of the ITI option which was actively promoted by the Commission. Two reasons mentioned in the report should be highlighted in the context of governance issues in Latvia which will be dealt with further:

The approach is considered inflexible as funding is tied up for a whole programme period(...);

Managing Authorities are keen to avoid duplication and increased administrative burden by creating a new implementation layer at the local authority level (...)<sup>44</sup>

The above evidence was given by Nordreihn-Westfalen region and the concerns they expressed have at least partly materialized in the Latvian case.

**The first point** given above should be read keeping in mind two things: 1) information on ITI application is included in the Partnership Agreement and 2) the question was why were ITI not chosen for SUD which is required under ERDF Regulation article 7 (ITI is voluntary, other approaches for SUD can be used). The answer cited above mentions that funding in ITI “is tied up for a whole programming period”. The Common Provisions Regulation does have rules for amending the Partnership Agreement. There are two cases when those can be initiated. One, where article 23 of the CPR establishes that the Commission can following Council recommendations or on own initiative request amendments to the Partnership Agreement to redirect funds to address existing economic problems or maximise the impact of ESI Funds. Second, in Article 30(2) of CPR when a Member State proposes amendment to programs and it affects information provided in the Partnership Agreement, the approval of the program amendments by the Commission constitutes an approval for revision of the Partnership Agreement. Even though there is a procedure that allows changes to the Partnership Agreement, the change would have to be duly justified as requested in article 30(1) of CPR. Additionally since in this case ITI is clearing the requirement to finance SUD, removing or changing ITI might affect the duty on SUD. In other words substituting the initial approach to supporting SUD with a different approach does not seem a viable course of action and hence the concern that ITI financing will be tied up for the period. In contrast changes to a dedicated priority axis

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<sup>44</sup> Van der Zwet, A., Miller S., Gross F. A First Stock Take: Integrated Territorial Approaches In Cohesion Policy 2014-2020, p.12, November 2014. <http://www.eprc-strath.eu/iqnet/knowledge-exchange/research-papers.html>

are much simpler to make and often are done at the ministerial level by way of adopting changes to implementing regulations with no involvement by the Commission.

In the Latvian case the ITI financing structure is detailed in the Partnership Agreement in the context of duties towards SUD. There is information on support areas, implementing mechanism and the allocated total amount<sup>45</sup> for the ITI tool. Provided that changing the PA in this regard is not an option we can conclude the following. Firstly, the ITI allocations can be used only to support areas mentioned in the PA. Secondly, not less than the amount mentioned in the PA shall be distributed for ITI projects. Thirdly, since all ITI financing consists of amounts ring-fenced within budgets for certain Support Objectives, means that to divert part or all of the ITI amount to another SO (which has to be one of the other Support Objectives with ITI component) would require to reassess the result indicators for both SOs involved in such a “transaction”. Downgrading a result indicator needs sound justification and the Commission may rejected proposed changes if those supported by unsound arguments, e.g. slow implementation.

The above assumptions suggest that Latvia could have distributed part of the more than 10% of ERDF for SUD which was allocated for ITI to other approaches. If the minimum requirement by ERDF Regulation is 5% of ERDF for SUD then at least half of the amount Latvia allocated for ITI could have been used to finance urban development through a dedicated priority axis.

The discussion in previous sections on several aspects of the Latvian ITIs show that the tool is not used for supporting integrated regional strategies (except for Deinstitutionalization). The planning and coordination have achieved the aim of aligning projects with output indicators. It is to be seen if the administrative burden of Cities will still increase once more projects enter the implementation phase. Looking ahead it will be a test for the Coordination council to refute any concerns that the confirmed development programs and projects will not deliver the outputs. Ensuring that all indicators are accounted for, each project delivers its part means coordination, and exchange of information will be a difficult task once the projects are finalized. It was also described how the approach to fixing allocations in certain SOs caused a loss of flexibility. Since this was established in the OP before the strategies were drawn up, ITI thinking was mostly focused on basic infrastructure projects within the Cities’ administrative territory and integrated regional strategies were not the priority.

## DELEGATION OF TASKS

The second point of evidence mentioned previously from the IQ-Net report on SUD speaks about concerns that an implementation layer would be created at the local authority level. This concern relates to the situation in Latvia. It was already mentioned that the Managing Authority has explained to the Commission that delays in ITI implementation are partly **due to the delegation of tasks to the sub-national level**.

The Order of the Cabinet of Ministers No.569 of 17<sup>th</sup> September 2015 (Order 569) on Delegating to the Self-governments of the Latvian Large Cities the Selection of Project

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<sup>45</sup> The allocation in the Partnership Agreement stands at EUR 230.84 million (p.182), but the current amount reserved for ITI projects is EUR 249 039 844. The change in amounts is due to Latvian government allocating additional EUR 53 million for ITI projects and moving part of financing for SO 8.1.2. and SO 8.1.3. initially reserved for ITI projects outside the ITI framework.

Applications for Integrated Territorial Investments<sup>46</sup> Article 2.1. describes the delegation agreement between the Managing Authority and Large Cities:

2.1. the municipality ensures selection of project applications in accordance with the requirements of the implementing legal acts of the EU Structural Funds and Cohesion Fund and in accordance with the financial allocation of the relevant support objective as indicated in the development program of the municipality and the distribution of expected results among national development centres in accordance with regulations of the Cabinet of Ministers on implementation of the support objective.

The Managing Authority concluded Delegation Agreements with all nine Large Cities in October-November 2015. The Agreement outlined the tasks, rights and responsibilities of the parties.

In the EU Funds Monitoring Committee meeting in May 2017 the city of Valmiera presented a report on ITI highlighting several governance issues that the Large Cities are struggling with:

1. The obligation of the **beneficiaries (the Cities)** to facilitate project selection;
2. Complicated evaluation procedures of project applications – first evaluation by municipal evaluation committee followed by verification at the MA and CFCU (with outsourced experts);
3. Difficulties with human resource planning to avoid conflict of interest in drafting, evaluating and implementing projects;
4. Lack of standardized documents (procedures, statutes of the evaluation committee, etc);
5. Lack of training for members of the evaluating committee;
6. Insufficient Technical assistance financing;
7. Lack of skills and experience (checking the status of SME, setting up the legal framework time consuming).

All the above points are about the internal procedures within the administration and it seems clear that setting up calls and selecting and evaluating project applications creates a heavy administrative burden on the municipality. It should be noted that the Large Cities have the largest and most resourceful administrative structures. Time consumption for these procedures cause heavy delays in the project pipeline. The distribution of ITI quotas took place in 2015/2016 which creates a delay of 1-2 years. This creates a risk that in an upward economy the price assumptions may have deviated significantly causing disruption in the planned project pipeline. The Information report “On implementation urban and polycentric development investments in the EU Funds 2014-2020” which was review by the Cabinet of Ministers in August 2015 described the situation at the time when setting quotas was on the agenda:

Requests for financing from the Large Cities which is based on the submitted development programs shows that 73% of the of the total financing is expected to be absorbed in 2015-2016 and for the period 2015-2017 the value reaches 94%. It should be stressed that the current pace of elaborating the implementing regulations of ITI SOs indicates that it will not be possible to start absorption in 2015 yet. But the plans of the

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<sup>46</sup> Ministru kabineta 2015.gada 17.septembra rīkojums Nr. 569 Par integrētu teritoriālo investīciju projektu iesniegumu atlases nodrošināšanas deleģēšanu republikas pilsētu pašvaldībām. *Latvijas Vēstnesis*, 2015, 21.septembris, 184 (5502).

Large Cities show that they are prepared to start implementation of ITI SOs and submit projects as soon as the financing is available<sup>47</sup>.

94% of ITI financing as mentioned above represents the ITI budget less the performance reserve of 6%. That would mean that the Large Cities were planning to have the highest possible absorption rate of 100% of the available resources. The table was presented at the EU Funds Monitoring Committee in May 2017.

	Drafting of project application (including technical documents)	Selection of project proposals	Together (projects in the pipeline)	Project call dossiers finalized/plan
SO 3.3.1.	12	2	14	100% (7/7)
SO 4.2.2.	70	5	75	75% (6/8)
SO 5.6.2.	30	4	34	56% (5/9)
SO 8.1.2.	17	-	17	11% (1/9)
SO 8.1.3.	2	-	2	100% (2/2)
SO 9.3.1.	12	-	12	0% (0/9)
Total	143	11	154	

Source: *EU Funds Monitoring Committee May 2017*

The publicly available information on websites of the Large Cities where information on project calls can be seen suggests that by December 2017 at least half of the projects for SOs 3.3.1., 4.2.2., 5.6.2., 8.1.2 will have been submitted to the project selection committees since several Cities have the end of year as deadline. That will notably increase the number of projects in evaluation (third column) and accordingly promises progress in contracting in the first quarter of 2018. It should be noted that the Managing authority together with the Implementation authority conducts verification as they “(...)retain the right to undertake a final verification of eligibility of operations before approval”<sup>48</sup>. A project application approved by the Large City may be rejected in the verification stage and the project applicant (Large City) would be asked to submit again with improvements. For the sake of performance review it is highly important to achieve progress in payments since the financial indicators take into account only certified expenses. Certification takes approximately 5 months which means that to be included in the performance results, payments have to be by June-July 2017.

The author draws attention to the first point from the list of concerns presented at the EU Funds Monitoring Committee which states the rather awkward situation that the selection and evaluation of project applications is done by the same entity – the municipal administration. Moreover the same entity (possibly even the same persons) were responsible for drafting the development program and the investment plan which was presented, reviewed and accepted in the Coordination council. All of the SOs which have an ITI component are implemented through restricted project calls. This means that the possible applicants of projects are identified in the implementing regulation. For instance a SO with an ITI component will have a clause that for the designated call

<sup>47</sup> Ministru kabineta 2015.gada 25.augusta sēdes protokols Nr.41. Informatīvais ziņojums "Par priekšnosacījumiem integrēto teritoriālo investīciju ieviešanā – Ministru kabineta rīkojumu saturs" (Cabinet of Ministers meeting protocol No.41 of 25th August 2015 Information report On preconditions for implementing integrated territorial investment – contents of order of the Cabinet of Ministers).  
<http://tap.mk.gov.lv/mk/tap/?pid=40366124>

<sup>48</sup> ERDF Regulation Article 7(5).

project applicants are the Large Cities (or their subsidiaries in some cases). To facilitate a restricted call for proposals the responsible institution for managing the tender process and receipt and evaluation of project applications sends a formal invitation to submit project applications. In the ITI framework the calls are organized by the Large Cities which is a key characteristic of ITI having urban authorities select operations and transferring decision making closer to the supported area. This leads to a situation when the responsible institution for the restricted call – the municipality – invites to submit projects the only beneficiary of the restricted call – itself (the municipality). To do this the municipality sends a letter to itself informing that the call is open and project applications can be submitted.

The LLCA made proposals for amendments to the ERDF Regulation article 7 that would relieve the municipal administration of managing the project calls, selecting and evaluating projects. They proposed the following:

4. At least 5 % of the ERDF resources allocated at national level under the Investment for growth and jobs goal shall be allocated to integrated actions for sustainable urban development where cities, sub-regional or local bodies responsible for implementing sustainable urban strategies ("urban authorities") ~~shall~~ **may** [emphasis added] be responsible for tasks relating ~~at least~~, [emphasis added] to the selection of operations in accordance with Article 123(6) of Regulation (EU) No 1303/2013, or, where appropriate, in accordance with Article 123(7) of that Regulation. The indicative amount to be dedicated for the purposes of paragraph 2 of this Article shall be set out in the operational programme or programmes concerned.

This amendment proposes to soften the condition of involving sub-national bodies which are responsible for implementing urban strategies (this refers to the strategies that underpin sustainable urban development investments) and would rather make it optional to delegate at least selection tasks. There are several considerations in this regard. First it shows that the way ITI is set up in Latvia it is an enormous burden for an administration of a single municipality to prepare several calls and manage project evaluation and selection while at the same time also elaborating the project applications. Even in the case of Large Cities this model seems to be ineffective. It would have been more practical if there were at least combined calls for all Large Cities within a given SO. It seems that the requirement to involve the responsible urban authorities (at least) in the selection process of operations is closely linked to moving towards more placed based approaches and bottom-up planning and removing this condition would be a step in the opposite direction. It is more a question of finding the appropriate level and a resource efficient form for managing project calls. For a municipality to make a call where perhaps only one project application by that very municipality will be submitted is highly impractical. Given the role and responsibility of the Large Cities to present and gain approval at the Coordination committee for their strategies and investment plans, it may be argued that this is a sufficient involvement in selecting operations. After all once the strategy and the investment plan is confirmed we can presume that selection has taken place – it is decided what project applications shall be submitted and their conformity to Fund rules and planning documents has also been confirmed. To answer this is the reference of ERDF Article 7(4) to CPR Article 123(6) which foresees that:

The Member State may designate one or more intermediate bodies to carry out certain tasks of the managing or the certifying authority under the responsibility of that authority<sup>49</sup>.

Drafting strategies and investment plans are not tasks of the Managing Authority so some degree of task delegation is necessary. It certainly seems that a system less demanding of

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<sup>49</sup> Common Provisions Regulation. Article 123(6).

the municipalities can be established. One option would be to install the tendering and selection mechanism at the Planning region level. The Large Cities value the fact that nobody interferes with their selection of projects, but the quota system and approval of project lists at the Coordination council effectively makes the selection process a very complicated formality. Since the projects are pre-selected as per funding quotas the project application evaluation focuses only on conformity to implementing regulations and evaluation criteria, but there are no competition among project applications. This is always the case in restricted project calls where the program budget is earmarked for beneficiaries via quotas.

To observe the legal requirements and balance the administrative burden seems rather challenging at this point. If the Large Cities are to remain the sole decision making entity in the sub-national level there is nobody else involved to assume any part of the administrative burden. Possibly there can be joint calls for the separate SO that are run by an expert group comprised of representatives of the Large Cities. The ERDF regulation clearly points to delegation of tasks of the Managing Authority related at least to selection. It must be kept in mind that the ITI set-up in Latvia has led to a situation when effectively the same administrative entity is responsible for planning of investments, managing project calls, preparing and submitting project applications, evaluating, selecting and implementing projects. There is an apparent mismatch between the priorities of the Large Cities and the delivery mechanism ITI. If for instance the Large Cities were running project calls for businesses or NGOs that offer solutions to identified challenges, this system would make more sense. In the present situation nobody else other than the City administration can prepare and submit a project for fixing a street, upgrading energy efficiency of the library or building dorm rooms for a school.

While it is unlikely that anything in the organizational set up and competences of different entities will change in the current financing period the May 2017 EU Funds Monitoring Committee expressed its position on the status quo:

MA: This year it is important to intensify project implementation and cash flows in all areas altogether including ITI.

Commission: Acknowledges that EU funds implementation has been hampered by the political and national reforms, nevertheless urges to speed up investment in priority axes eight and nine to avoid reallocation of EU funds financing from truly significant areas – education and social inclusion, which are also closely linked to the country's specific recommendations.

The discussion about streamlining EU instruments and policies is present in the context of economic governance and cohesion policy instruments are well integrated at the Community. The conditions and regulations associated with programming the cohesion transfers from the central Community budget to the national budget require negotiations and equalization of views as to the priorities, objectives and measures associated with cohesion investments while a certain degree of independence for the Member State has to be ensured.

The ESI Funds programming process ensures that the Partnership Agreement and OP show a link between ESIF interventions and strategic documents of Community interest such as Europe 2020 and country-specific recommendations<sup>50</sup>. The implications from lack of progress in achieving milestones of the performance framework were previously explained and certain support objectives stand to lose approximately 6% of their allocation if any of the performance indicators are below their expected value.

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<sup>50</sup> TFEU Article 121(2) on adoption of country-specific recommendations.

In the 2014-2020 cohesion policy stronger and more formalized focus on recommendations and reforms is used. Since the main reform areas are addressed in the Partnership Agreement and the Operational Program they remain valid for the whole duration of the financing period. The CPR Article 4(1) requires that ESI Funds provide support in line with “the relevant country-specified recommendations” hence they are an important part of the equation for deciding on allocations for the Thematic Objectives. On the one hand the presence of recommendations indicates that the Member State has to carry out certain reforms and this situation should be supported by ESI Funds. On the other hand the performance framework serves the objective to incentivize a more efficient absorption process which is more difficult in areas where complex reforms have to be adopted. In certain situations the concepts of recommendations-reforms and faster absorption have by definition contradictory effect. The recommendations show where investment is needed and gives it a priority status for receiving ESI Fund support. If the reform process takes longer than expected then the corrective function of the performance framework takes effect and may divert the funding from these high priority measures to other measures that may not have a strategic significance at the Community level.

## **CASE STUDY – DEINSTITUTIONALIZATION AND COMMUNITY BASED SOCIAL SERVICES**

In this section a case study in the deinstitutionalization reform of the long-term social care sector will be outlined. Support under this objective shall be used as an example for an attempt to manage integrated territorial planning in the whole country with municipal cooperation a key feature in provision of community based social care services for physically or mentally disabled population. It incorporates several features that characterize genuinely integrated strategic approach to planning. Currently the program is in its latter stages of planning and relatively small amounts of spending have been made yet. It is also early to make judgements about the success and efficiency of the program – there are expected more than 50 ERDF supported infrastructure projects in development centres and other municipalities. The regional plans account for 100% of the available ERDF funding – all of which has been earmarked. The success rate of these projects will be worthy of a deeper analysis at the end of the financing period. Deinstitutionalization requires infrastructure investment and support from the European Social Fund to create and provide sustainable services. This means that a combined approach is present in all cases where ERDF is claimed (some municipalities may use only ESF if they do not need infrastructure upgrade). This is not the only program which streamlines two separate funds towards a common output; there are other examples in the Latvian OP for instance in the education or health care investment priorities. What makes deinstitutionalization unique and useful for the present research is the planning process which has several features: 1) the process is driven by a reform designed and promoted by the central government, 2) planning is at the regional level (Planning regions), 3) municipalities decide if cooperation with neighbours is beneficial (buying services an option).

One of the investment priorities of Thematic Objective 9 “Social inclusion and combating poverty” is to increase the availability of community based social services:

Investing in health and social infrastructure which contributes to national, regional and local development, reducing inequalities in terms of health status, promoting social inclusion through improved access to social, cultural and recreational services



and **the transition from institutional to community-based services**<sup>51</sup> [emphasis added].

In Latvia as in most Eastern European countries thousands of people with disabilities live in isolated institutions where they reside permanently and receive shelter, food, health care and social or physical rehabilitation services. People living in such institutions may have mental health problems or physical disabilities or a combination of both. The severity of their condition and the degree to which a person can function independently varies greatly among this population. The institutional long-term care system has been around for hundreds of years, but today the general understanding is that there are better ways to ensure care of disabled persons outside the framework of institutions and closer to the persons home and relatives or friends:

Evidence has shown that institutional care invariably provides poorer outcomes in terms of quality of life than quality services in the community, often amounting to a life time of social exclusion and segregation.<sup>52</sup>

The Law on Social Services and Social Assistance stipulates a preference for community based services in article 4(2) and 4(4):

(2) Social services are provided at home or as close as possible to client's home, and only if that service is insufficient, long-term social care and social rehabilitation is provided;

(4) Orphans and children deprived of parental care shall be ensured with care in a family environment – foster family, guardian, and only if that is not possible, care in long-term social care and social rehabilitation institution is provided<sup>53</sup>.

The process of replacing the institutional system and moving people who need social care services out of institutions into communities is described as called deinstitutionalization. In Latvia as in most other countries municipalities that create new services in line with international standards and human rights of all people undertake the key role in deinstitutionalization. The Latvian Law on Municipalities article 15 states the autonomous functions of municipalities, among others provision of social services:

7) ensure the public with social services (social care) (social care to needy families and socially less protected persons, ensuring old age people with access to homes for the elderly, ensuring orphans and children with no parental care with placement in educational institutions, ensuring shelter for the homeless, etc)<sup>54</sup>.

The law requires that municipalities provide the necessary social services to its residents. Nevertheless there are many institutions in the central government structure of the Latvian health care and welfare sectors which still provide long-term care services in parallel with municipalities. To facilitate reforms in this system the OP 2014-2020 foresees financing of a complex set of actions which have the objective to decrease the role of the central government in provision on long-term care services, introduce sustainable community based services at municipalities for local residents with disabilities and ensure proper infrastructure is set up for provision of these services.

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<sup>51</sup> ERDF Regulation. Annex IX.

<sup>52</sup> Common European Guidelines on the Transition from Institutional to Community-based Care, p.10, European Expert Group on the Transition from Institutional to Community-based Care, November 2012.

<http://www.deinstitutionalisationguide.eu/wp-content/uploads/2016/04/GUIDELINES-Final-English.pdf>

<sup>53</sup> Sociālo pakalpojumu un sociālās palīdzības likums (Law On Social Services and Social Assistance). *Latvijas Vēstnesis*, 2002, 19.novembris, 168 (2743).

<sup>54</sup> Likums par pašvaldībām (Law On Municipalities). *Latvijas Vēstnesis*, 1994, 24.maijs, 61 (192).

The support includes input from the ERDF (infrastructure) and ESF (provision of services) and is organized under two support objectives:

**SO 9.2.2. To increase availability of high-quality at home social services as substitute for institutional care and availability of family environment services for children and people with disabilities.** This is the ESF intervention and support is foreseen for human resources in provision of services.

**SO 9.3.1.1. To develop infrastructure for provision of care for children in a family environment and for independent living and social integration of people with disabilities.** This is the ERDF intervention for ensuring the infrastructure needs of municipalities to provide community services.

The program streamlines ESF and ERDF through the territorial planning of deinstitutionalization and community based services. The planning process is financed under SO 9.2.2. Key feature of planning is that it is conducted for macro regions – Riga region, Vidzeme, Kurzeme, Zemgale, Latgale – by the Planning regions entities. These are not administrative territorial units, but derived public entities which are established by the Law on Regional Development. Their main responsibilities are connected with coordination of various planning documents and planning process. The decision making body is the Development council which is appointed by representatives of all municipalities within the relevant planning region.

The Ministry of Welfare is the responsible institution for the program which is based on the strategic policy document on deinstitutionalization. Each planning region concludes bilateral contracts with the ministry. They then submit at the Implementing institution a project application and afterwards are contracted to ensure the planning process. This is supported under SO 9.2.2. for delivering the regional deinstitutionalization plan. The planning tasks are outsourced to a service provider gathers and compiles the information. The regional plan has to account for all client groups in all municipalities of the region, consider all project ideas and necessary funding. In other words the regional plan is a blueprint for all the actions within a given region that are financed through SO 9.2.2. (ESF) and SO 9.3.1.1. (ERDF). The Large Cities even though they have a ring-fenced allocation in the SO 9.3.1.1. budget are also covered by the regional planning measure. The regional plans are expected to deliver a proposal for infrastructure set-up which is coordinated and supported by all municipalities of the region. The Planning regions cooperate with municipalities and later they will have the task of developing and maintaining those community based services which are needed for their clients – local public already living in the municipality or persons (also children) who are moving out of long-term care institutions. The necessary services may be provided by the municipality or outsourced to NGOs or other entities which are authorised to provide social services.

At the time of this analysis only draft versions of the regional plans for Kurzeme, Zemgale and Vidzeme are available. They have been published to facilitate a public debate about their content and expected impact on municipalities. It is likely that there will be some changes to location of services and also redistribution of financial support between municipalities. This may prove a good example of integrated territorial planning which results in a document on which all municipalities can agree upon. The number of projects that are finalized will describe the success of this planning exercise. In any situation a regional plan conducted at the sub-national level and which has direct financial implications for municipalities is a positive experience. Although the work was largely conducted by outsourced service providers the

planning regions had to negotiate the participation of municipalities in the program. From 119 municipalities only 4 declined involvement and provision of community services. They were not granted access to ERDF funding for infrastructure. In the Vidzeme draft regional plan experts shared their findings on cooperation among municipalities:

In the process of elaborating the regional plan it was identified that municipalities of Vidzeme region already cooperate to ensure social services to the population, including for the target groups of deinstitutionalization. Cooperation opportunities of municipalities are related to their geographical location, as well as functional connections that are present within the former county<sup>55</sup> borders (especially former Cēsu county and former Valmiera county)<sup>56</sup>.

If this regional planning approach will deliver the expected results then it will be useful evidence for future reforms that planning within larger regions can ensure better results in terms of service quality and efficiency. Planning regions can also assume a role in implementing other regional strategies perhaps post 2020 ITI. The best indicator for rate of success for planning of community based services will be the sustainability of the services after the end of the program. Municipalities should maintain these services under own budget after the fund program runs out, but if the services are terminated then it should be reviewed what were the assumptions for setting up services that last only for the funding period.

## SUSTAINABLE URBAN DEVELOPMENT IN ESTONIA

Provision of at least 5% of ERDF envelope to sustainable urban development is a duty of all recipient Member States so for the sake of exchange of experience it would be useful to supplement the analysis of the Latvian ITI with a brief overview of the approach to financing SUD by Estonia.

The Operational Program for 2014-2020 for Estonia gives a comprehensive overview of how sustainable urban development will be supported. Estonia opted for a different approach in comparison to Latvia, and its OP states that ITI mechanism as specified in ERDF Regulation **shall not be applied**. Instead to facilitate the requirement to support sustainable urban development Estonia has created a dedicated priority axis number nine with the same title - Sustainable Urban Development. The priority axis has three support objectives (SO) with support focused on the geographical areas (counties) which include five largest Estonian cities – Tallinn (Harju county), Tartu (Tartu county), Narva and Kohtla-Järve (Ida-Viru county), Pärnu (Pärnu county). The priority axis is envisaged to be financed by ERDF, but it is noted, that cross-funding by ESF might be used for relevant activities. To produce integrated actions it is foreseen that a strategy for the urban area will be elaborated. It will cover and be approved by all municipalities in the relevant urban area and will build on the separate strategies of those municipalities. Regions in this context are the five urban centres and neighbouring municipalities. Cooperation of neighbouring administrative entities is essential:

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<sup>55</sup> Reference is made to the former administrative division of Latvian territory when the sub-national level included counties and county administration. Counties were further composed of municipalities.

<sup>56</sup> Vidzeme Region Deinstitutionalization Plan 2017-2020. V 1.0. Vidzemes reģiona deinstitutionalizācijas plāna 2017.-2020. [http://www.vidzeme.lv/lv/deinstitutionalizacijas\\_plana\\_2017\\_2020\\_gadam\\_pirma\\_redakcija](http://www.vidzeme.lv/lv/deinstitutionalizacijas_plana_2017_2020_gadam_pirma_redakcija). Accessed 20.11.2017.

Local authority units in larger urban areas are generally more capable than average, and the majority of urban areas have experience of cooperation between the local authorities of the central city and its hinterland<sup>57</sup>.

The priority axis is composed of three specific support objectives:

**SO1: The share of users of sustainable means of mobility has grown.**

This will support: development of opportunities for moving on foot or on a bicycle (including pedestrian and bicycle routes, bicycle parking places, bicycle share systems, smart solutions); increasing support of sustainable modes of mobility in public urban space by focusing on key mobility areas; and sustainable provision of public transport services that meets the needs of the population (including mobility surveys and plans, information systems, ticket systems, park-and-ride systems, acquisition of environmentally friendly public transport vehicles to the extent of the portion of the cost that exceeds the price of an ordinary vehicle). Projects to cover Tallinn, Tartu and Pärnu. Preference will be given to operations developed and carried out as a result of cooperation between several local authorities.

**SSO2: Major underused districts in larger urban areas of Ida-Viru County have been revived.** Projects to cover Narva and Kohtla-Järve (both in Ida-Viru county).

**SSO3: Residents of larger urban areas are provided with nursery school and childcare options near home.** Projects to cover Tallinn, Tartu and Pärnu. Support will be provided to municipalities for facilitating places for pre-school age children day care institutions.

Based on the information given in the Estonian OP we can make several conclusions about programming approaches of Estonia and Latvia to implement the sustainable urban development element. Estonia opts for designing a separate priority axis for SUD. This means that their approach is relieved of the requirements that come with the ITI tool – delegation of tasks and associated administrative burden. Estonia concentrates the allocation in a smaller number of support measures – three (in Latvia seven SOs are involved). Of the five eligible urban areas, two are supported through SO2, the other three receive support from SO1, SO3.

There is a notable difference in administrative governance between Latvia and Estonia which should be briefly explained. In Latvia there are 119 municipalities which are supervised by the MoEPRD. In Estonia the sub-national level is composed from counties and municipalities. There are 79 municipalities in Estonia. Municipalities are the administrative units of counties which are led by a County Governor:

These are direct representatives of the central government at the regional and local levels. They monitor municipal services, give advice to municipalities and are in charge of county level planning<sup>58</sup>.

A reinforced county level which is led by civil servants and a government appointed official (governor) ensures that interests of all municipalities are accounted for and balanced to the extent possible. Better correspondence with country wide planning can also be ensured. The division of central government functions between the county level and the ministerial level allows to decrease ministerial resources. Previously the responsibility to ensure policy planning and surveillance of the sub-national level was assigned to a single department – Department of Regional and Local Affairs of the Ministry of Interior. To this end the Ministry of Interior was

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<sup>57</sup> Operational Program for Cohesion Policy Funds. Ministry of Finance Estonia. 2014.  
[https://www.struktuurifondid.ee/sites/default/files/2014-2020\\_1.pdf](https://www.struktuurifondid.ee/sites/default/files/2014-2020_1.pdf)

<sup>58</sup> OECD Public Governance reviews Estonia: Towards a Single Government Approach, p.108, 2011.

responsible for drafting the implementing national regulations for the relevant SOs<sup>59</sup>. For the above mentioned SO1 and SO3 there is a single implementing document hence there are two implementing regulations for three SOs. In 2015 due to governmental reform the competence for regional development was transferred to the new office of Minister of Public Administration which has his seat at the Ministry of Finance and both ministers – minister of finance and minister of public administration – assume political leadership of the ministry within their competence. Nevertheless it can be highlighted that SUD in Estonia has a simpler regulatory framework with a smaller number of implementing regulations (two compared to seven in Latvia) and a single responsible minister – minister of public administration (compared to four responsible ministers in Latvia – minister of education, minister of welfare, minister of environment protection and regional development, minister of culture).

The project output indicators for the dedicated SUD priority axis are simpler and can be easily measured. For instance the grant program for Tallinn, Tartu and Parnu has to produce the following results: 1) 60 km of roads for non-motorised vehicles; 2) revitalization of 60 000 m<sup>2</sup> of public space; 3) realization of three projects promoting public transport or innovative mobility; 4) additional places in kindergarten for 2000 children. A project financed under this program has to contribute at least to one of these result indicators. In the Estonian program there are also initial quotas for the three areas and they are referred to in article 10(3)5 of the Regulation No.9RTI. With regard to quotas the urban area drafts an integrated strategy which includes priority projects and secondary projects. To make sure that projects from the three strategies deliver the sum of results that is required by the programme, the strategies with project proposals are reviewed by Enterprise Estonia (article 11(1) of the Regulation No.9RTI) before formal tendering and selection. After this pre-evaluation of project ideas a decision is made for division of the allocation among the urban areas.

Article 9 of the Regulation No.9RTI includes several prerequisites for an admissible strategy:

- It has been drafted in cooperation with municipalities in the urban area;
- The strategy is adopted by councils of all involved municipalities;
- If a municipality refuses to adopt the strategy the responsible agency (Enterprise Estonia) submits request for explanation. If the explanations are unjustified then the strategy may be deemed adopted.

Article 11(3) of the Regulation No.9RTI foresees an expert committee with representatives from all municipalities in the urban area. The expert committee is responsible for selection and evaluation of projects. As it was mentioned before the three SOs focus on five urban areas and five integrated strategies. The key features of SUD Estonia are: 1) five regional strategies (urban center-surrounding municipalities), 2) only three support objectives, 3) only two implementing regulations, 4) only one responsible ministry, 5) simple project outputs (day care places, number of projects, km of roads). Unlike in Latvia Estonian SUD objectives are not connected with central government reforms. For instance the school mapping which was a conditionality for the SO 8.1.2. delayed the start of the program for almost 3 years.

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<sup>59</sup> 1) Regulation of the Ministry of Interior of 09.03.2017 No.9RTI Grant Rules for “Sustainable Urban Development” <https://www.riigiteataja.ee/akt/106032015030?leiaKehtiv=>

2) Regulation of the Ministry of Interior of 27.03.2015 No.7 RT I Conditions of Support Measure “Sustainable Development of Urban Areas in Ida-Viru” <https://www.riigiteataja.ee/akt/104042017003?leiaKehtiv=>

## CONCLUSIONS

Funding from the EU budget has been a very important source of investments ever since Latvia became a beneficiary thereto. The investment choices and funding delivery mechanisms are governed by Community level and national level legal frameworks which among other types included strategic documents with legal force, regulatory provisions, guidelines and communications from EC services.

In the environment of more complex rules and regulations Managing Authorities and other national entities will be challenged by the task to find the right balance between administrative burden and matching funding with needs. In a multi-stage process like ESI funding administrative burden is a significant issue in all phases – strategic planning, negotiations, building the implementation framework, disbursement, monitoring and control. The ESIF system is very demanding especially for smaller countries like Latvia with less specialization in the administration. For Latvia the importance of making the right choices at the very early programming stages is crucial. In this context the ITI approach in Latvia is on track to become an example when a strategic choice regarding funds delivery tool leads to a complicated administrative system which does not fully make use of the features of the ITI tool.

The text of the Operational Program still shows the evidence that the plan was to use ITI for reinforcing urban links with the surrounding territories. All national and regional development centres have quotas for public infrastructure projects. If in reality 40% of from each development centre's quota would have been directed to cooperation projects they would cover the whole country and reinforce the concept of cooperation territories or regions.

The present ITI framework creates excessive administrative burden for municipalities of Large Cities. The overlapping of different roles is hard to cope with from planning and human resource point of view. If planning, project call management, project preparation, selection, evaluation, implementation is all the responsibility of the municipality then having to cope with some of these responsibilities for the first time will cause delays in project pipeline.

The first half of 2018 will give precise picture about the prospects of having the performance reserve relocated away from some support objectives. If this will affect a support objective with an ITI component then at the moment there is no clear methodology how the budget cut would be executed at the national level. Since ITI is protected by the sustainable urban development duty, the funding reserved for the Large Cities could stay intact. More losses would be accumulated by the other categories of beneficiaries – other municipalities.

The process of negotiating post 2020 cohesion policy support is in high preparation. Taking the lessons from the current period, there should be greater preference to simple approaches. Complicated procedures cause delays which push projects further in time and in the upswing phase of economy where increased costs for services and labour create challenges to manage within the initial budgets.

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